FOR PROFESSIONAL AND QUALIFIED INVESTORS ONLY

SEPTEMBER 2016

BLACKROCK®

IN THE EYE OF THE STORM

GLOBAL INSURERS' INVESTMENT STRATEGIES 2016

Foreword

The ultra-low challenge

Our fifth annual survey of global insurers is a progress report on the industry's multiyear journey through a series of challenges with little or no precedent. While insurers aren't the only investors confronting ultra-low interest rates, low growth and geopolitical uncertainty, the combination presents them with some unique hurdles. Far-reaching regulatory change further complicates the mix.

The survey results contain more than a few paradoxes, perhaps not surprising in a climate when not many investment questions have obvious answers. We present the findings in four sections, which correspond to our four major areas of inquiry:

Risk: Perceptions of macro risk are closely linked to views on portfolio risk and decisions about how to alter risk exposure. As our survey results illuminate, these linkages may operate in surprising ways in today's financial landscape.

Asset allocation: In some regions investment grade fixed income—the staple of income generation and capital efficiency—is losing favor as insurers look to increase both cash and government bonds while also pursuing riskier and/or less liquid forms of credit. New regulations have brought different capital charges to bear on weighting decisions, and the attractiveness of various assets has fluctuated.

Private markets: Alternative asset classes represent an important area of focus for the future, given the opportunities for good returns that they can open up. But insurers must overcome both internal and external hurdles to investment in these areas.

Regulation: Insurers are still keeping an eye on forthcoming changes to the regulatory framework within which they must operate. Our survey records how concerns vary around the globe now that some major changes have come into force.

The survey results show perseverance and progress on various fronts, including the implementation of new regulations and steps to better harness the potential of private assets. At the same time, the results leave little doubt that insurers must keep working to adapt to a world where some basic assumptions—including the viability of bedrock products—must be revisited.

As we detail in a series of commentaries accompanying the report, BlackRock stands ready to help—both in identifying the challenges at hand, and in partnering with insurers as they work to overcome them.

David A. Lomas
Managing Director, Global Head,
Financial Institutions Group -
Client Business

IN THE EYE OF THE STORM

Global insurers' investment strategies

CONTENTS

About this report 5

Executive summary 6

Section 1: A robust appetite for risk amid geopolitical uncertainty 8

Section 2: Embracing riskier credit and a bit more equity—but also cash and government bonds 14

BlackRock view: Assessing the opportunity set 18

Section 3: Selectively pursuing private assets, and well attuned to the hurdles 19

BlackRock view: Overcoming real barriers 22

Section 4: Growing accustomed to Solvency II—but still worried about regulatory risk 23

BlackRock view: Game change 27

Appendix 28

About this report

In the eye of the storm is based on a survey commissioned by BlackRock and conducted by the Economist Intelligence Unit (EIU). Its findings stem from an online survey of senior executives at insurance companies around the world, complemented by a series of telephone interviews. The report looks at investor sentiment and the outlook for investment strategy at insurance companies, particularly in relation to macro and market risks, fixed income portfolios and asset allocation more broadly.

During May and June 2016, the EIU surveyed 315 senior executives in the insurance and reinsurance sectors with estimated assets under management of $12 trillion:

- 22% of companies had assets of $75 billion+,
- 44% had assets between $10 billion and $75 billion, and
- 34% had assets between $500 million and $10 billion.

By business line, the breakdown was:

- 28% in life insurance,
- 26% in multiline,
- 21% in property and casualty,
- 15% in health, and
- 11% in reinsurance.[1]

Geographically, the respondents' profile was:

- 50% of respondents came from Europe,
- 22% from North America,
- 18% from Asia-Pacific, and
- 10% from Latin America.

In August we also conducted a separate flash poll of over 100 executives following the U.K.'s referendum on membership of the European Union, and detailed telephone interviews with senior executives from the sector. The insights from these interviews appear throughout the report. BlackRock would like to thank the following individuals and their organizations (listed alphabetically) for sharing their views and experience.

AEGON
Edgar Koning, Chief Investment Officer

AFLAC
Eric Kirsch, Chief Investment Officer

ASSURED GUARANTY
Donald Paston, Treasurer

AXA
Laurent Clamagirand, Chief Investment Officer

DIRECT LINE
Jim Hardie, Chief Investment Officer

EUROVITA
Andrea Battista, Chief Executive Officer

GLOBAL ATLANTIC
Gilles Dellaert, Chief Investment Officer

NOVAE
James Kenney, Chief Investment Officer

ROYAL LONDON
Tim Harris, Chief Financial Officer

ZURICH
Urban Angehrn, Chief Investment Officer

The survey was conducted by the Economist Intelligence Unit.

Results reported as of September 2016.

[1] Throughout the report percentages may not add to 100 due to rounding.

Executive summary

The global investment landscape continues to be extremely challenging for insurers in every region. Even before Britain's largely unanticipated vote to leave the European Union, our survey of 315 insurers worldwide showed that the weak economic growth and persistently low interest rates that have confronted insurers for years remained their chief worries, with each cited as a concern by over half the respondents.

These worries have now been amplified by the Brexit vote, though an additional flash poll of over 100 insurers reveals that the anticipated effects of the vote are seen at this stage mainly as reinforcing pre-existing trends. Nonetheless, insurers today face a mighty squeeze: many traditional investment assets no longer have met their needs, while the alternatives bring a range of issues including a chronic shortage of supply and issues with implementation.

Our fifth annual survey of global insurers shows how the industry is adapting to these challenges, and the tensions and contradictory pressures they must now seek to reconcile. The key findings in the survey's four areas of inquiry are:

A robust appetite for risk amid geopolitical uncertainty

Slow growth and heightened geopolitical risk are major concerns globally, but the search for adequate returns means that again this year the great majority of insurers plan to maintain or increase their exposure to investment risk. Persistently low interest rates loom large among the major market risks that insurers are worrying about; they were cited by 59% of those polled, while 57% were concerned about asset price volatility. It is clear from our interviews that the Brexit vote has reinforced a widely shared view that interest rates will remain 'lower for longer.' As a result, just 8% of respondents plan to reduce their exposure to investment risk, against 47% who expect to increase it, down from 57% in 2015. Of the four regions surveyed, North America appears the most risk-averse.

Embracing riskier credit and a bit more equity—but also cash and government bonds

Insurers' asset allocation intentions this year reflect a widening of their search for additional sources of yield and returns, particularly through greater exposure to riskier credit, while appetite for investment grade fixed income has moderated in some regions. However, insurers' willingness to assume greater investment risk contrasts with the large percentage who expect to increase their allocation to cash over the next 12-24 months, and the similarly large proportion who plan

greater exposure to government bonds in spite of low yields. Our interviews suggest that cash may be building up in part because of a lack of adequate investment opportunities, and government bonds have remained in demand because of their low risk weighting. We also suspect that the need to hold cash to cover variation margin on cleared derivative positions and collateral on OTC positions is a significant contributory factor. Although sentiment towards equities remains cool, it has become considerably less negative since last year's survey.

Selectively pursuing private assets, and well attuned to the hurdles

While overall intent to allocate more to illiquid alternatives declined (16% expect an overall increase this year compared with 27% in 2015), respondents showed strong interest in certain private market assets. More than half plan to invest more in direct mortgages, and 49% expect to increase private equity. Yet regulatory concerns are weighing heavily on many: capital charges was chosen as the biggest external barrier to investment, cited by 46% of respondents. Many interviewees also referred to the general shortage of opportunities to invest in private market assets.

Growing accustomed to Solvency II—but still worried about regulatory risk

Regulatory risk continues to be a major current concern for many, with 46% citing it this year among their top three macro risks, up from 40% a year ago and just behind the two central issues: weak growth and geopolitical risk. Interestingly, looking ahead, regulatory change is no longer seen as the major driver of change in the insurance industry over the next 12-24 months, suggesting that—particularly in Europe with Solvency II having come into force on January 1, 2016—immediate worries over adapting to the change have subsided.

Among the main regulatory topics for insurers worldwide, Solvency II is clearly at the top and has transregional reach: it was cited by 53% as having the biggest impact on their investment decision-making. And there was a general expectation among interviewees that capital reform was likely to be introduced in regions beyond Europe over the next 3-5 years.

1

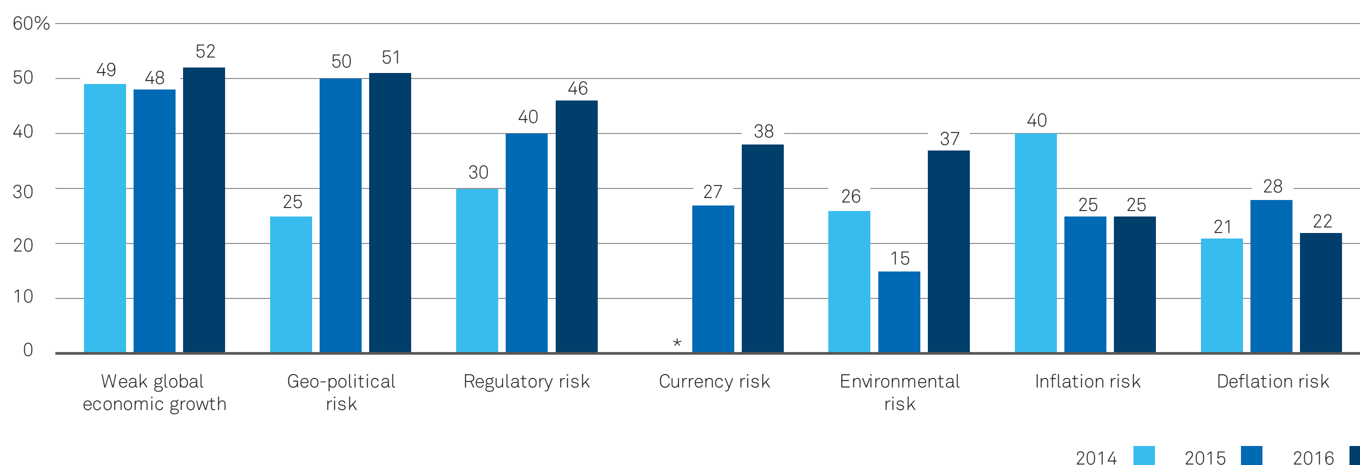
A robust appetite for risk amid geopolitical uncertainty

Our survey asked insurers for their views both on macro risks and risks to their investment strategies over the next 12-24 months. The top two macro risks were largely unchanged: geopolitical risk had already spiked last year and is still cited by half the respondents along with weak economic growth. Fears of inflation have understandably stayed low but there are considerable portfolio concerns in a range of areas: asset price volatility, liquidity and credit risks and, interestingly, both persistently low interest rates and the prospect of sharp interest rate rises. Amid these elevated concerns, insurers' robust appetite for increasing their own risk exposure might seem counterintuitive, but our interviews highlight that the search for adequate returns is relentless, and difficult when interest rates remain so low.

The global economy's muted performance has figured consistently as a key issue for several years, with around 50% citing this as one of the most serious concerns in their investment strategy since 2014. But it is now firmly overlaid with a sense that the political environment has become much more uncertain. This sense pre-dates the Brexit vote in late June but has been reinforced by the result (see page 13), and is also likely to be a reflection of the U.S. presidential election, China's uncertain path, and terrorism risks. Geopolitical risk was cited by 51% as one of the most serious risks to investment strategy this year, up from 25% in 2014.

Gilles Dellaert, chief investment officer of Global Atlantic, says: "The broader existence of the European Union as we know it is at much greater risk—as the market seems to be implying right now—and our view is that the U.K. vote may very well become a forcing function for those existential questions to pop up again

CHART 1: ASSESSING MACRO RISK



*Not asked in 2014. Base: Global (n=315)
Which of the following do you consider to be the most serious macro risks to your firm's investment strategy/portfolio over the next 12-24 months?
Source: BlackRock Global Insurance Survey, May-August 2016.

sooner rather than later. That's a much bigger issue globally than the U.K. [situation], in and of itself."

Insurers accept that central banks will at least maintain and in some cases loosen monetary policy further in the short term to cushion their economies from the shock of Brexit. But at the same time there is a common view that this will have little or no impact on growth rates. "The room to ease is pretty depleted," says Donald Paston, treasurer of Assured Guaranty. "The countries that do QE can go back to doing QE but I think they've certainly used up a lot of the potential to fight off the next recession." Others argue that the time has come for governments to pick up the baton from central banks and play a bigger role in boosting economic growth.

Beyond uncertain geopolitics and slow growth, concerns over most other risk factors have almost all turned upward over the past 12 months. The proportion of respondents citing concerns about regulatory risk rose from 40% in 2015 to 46% this year, ranking third. This uptick may indicate a belief among those not directly affected by Europe's Solvency II regime that new regulations are likely to be introduced for them as well over the next few years. Worry about environmental risk, meanwhile, jumped sharply from 15% in 2015 to 37%, possibly as a result of concerns such as extreme weather events and the growing debate over so-called 'stranded' hydrocarbon assets.

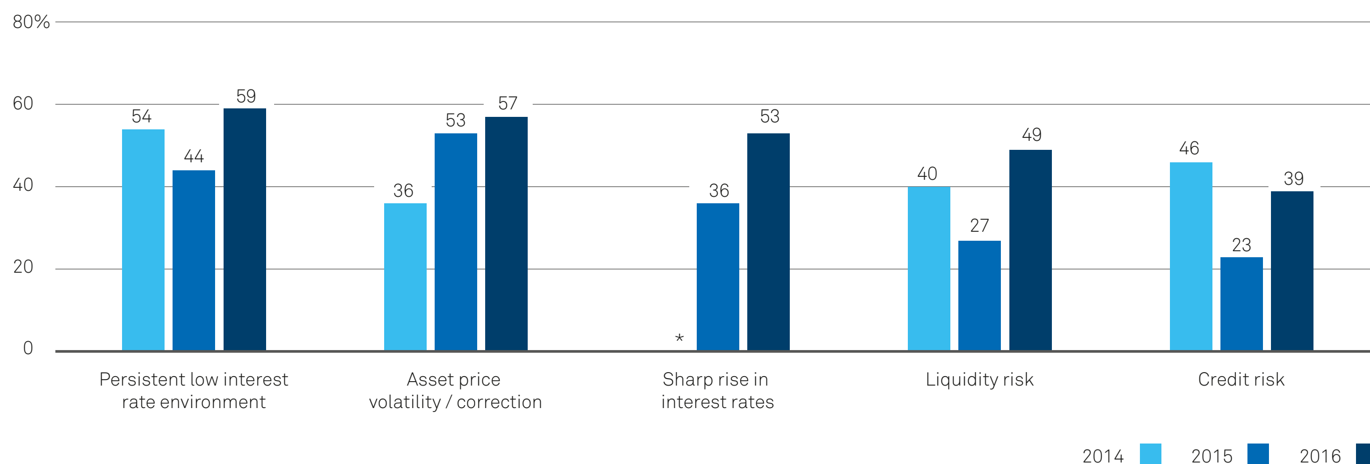
Interest rates will be lower for longer

The market risks to investment strategy that insurers worry most about reveal the influence of pervasive political and economic uncertainty. A persistent low interest rate environment was the most cited serious market risk to investment strategies over the next 12-24 months, selected by 59% of respondents.

Concerns over persistently low interest rates are particularly pronounced among life companies, for whom the future viability of certain product lines, such as annuities and other products that incorporate guaranteed positive returns, is looking increasingly questionable. This is an issue that goes to the heart of business models. Insurers' unique role in providing protection against life, health, property and liability risks is clear. However, except where annuitization is obligatory, how does an insurer differentiate itself from a pure asset manager in the savings and retirement space if it cannot, or does not, provide investment guarantees?

Urban Angehrn, chief investment officer of Zurich, believes low rates will force insurers to further adjust their product designs and pricing. In some life insurance markets, positive-return guarantees are still expected by consumers, but are no longer sustainable. Instead, insurers may have to offer no more than a 0% capital guarantee, or no capital guarantee at all, he argues. "In life insurance the yield movements after Brexit stress even more the need for the industry to move away from guarantees on savings products…you can only have guarantees that are manageable, that are consistent with the capital markets."

CHART 2: ASSESSING MARKET RISK



*Not asked in 2014. Base: Global (n=315)
Which of the following do you consider to be the most serious market risks to your firm's investment strategy / portfolio over the next 12-24 months?
Source: BlackRock Global Insurance Survey, May-August 2016.

The current low-rate climate has much to do with the way that concerns over the fragility of global markets in the past year have made the U.S. Federal Reserve less aggressive about tightening than had been expected. Now the Brexit vote has powerfully reinforced insurers' belief that interest rates will remain 'lower for longer.' Those we spoke to were unanimous that rates would be held down as a direct consequence of Brexit and expressed considerable worry over the implications if this continued in the long term.

"The question is whether this is temporary or something more permanent," said a senior investment executive at an Asian insurer. "If it's temporary I think a company like ours can sustain that, given it's a large pool of business over a long period of time. But if it's prolonged—that's something we're afraid of."

Although concern about persistently low interest rates is the most striking feature of this year's survey, the results also show that asset price volatility remains a major worry everywhere, cited by 57% of respondents. While asset price volatility was of nearly equal concern for both life and property and casualty (P&C) companies, life insurers indicated a greater intention to employ volatility-controlled strategies: 52% compared with 40% for P&C. The risk of asset/liability mismatch within guaranteed life products is likely to be driving this adoption of volatility-controlled investment strategies.

North American insurers report great concern about liquidity: at 64% this was the number one market risk in that region—a reflection, perhaps, of ebbing bond-market liquidity as new regulations force banks to step back from their role as market-makers.

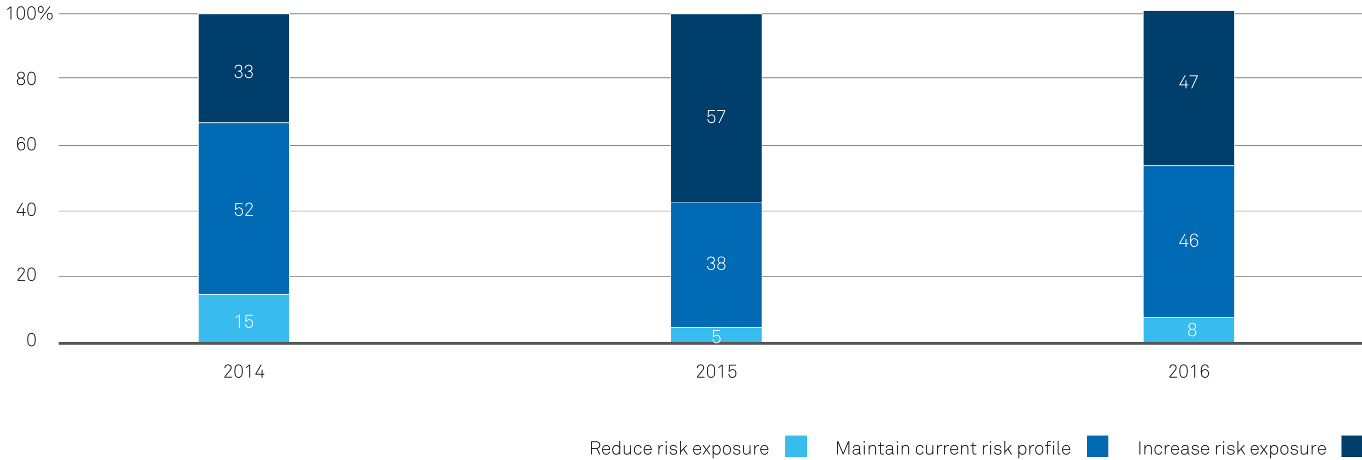
Overall, insurers are striking an uncomfortable balance between their heightened awareness of macro and market risks and the necessity of continuing to seek out adequate yield and returns. There has rarely been greater reason for insurers to tread carefully, focus more sharply than ever on the downside and continue investing in improved tools to model and manage the risks they must inevitably face. "It just makes you have a tougher risk management lens as you're thinking about your investments," observes Eric Kirsch, chief investment officer of U.S. health insurer Aflac.

Retreat from investment risk is not an option

Across all regions only very small minorities expect to reduce their appetite for investment risk over the next 12-24 months. Globally, 47% expect it to increase, another 46% say they will maintain it at current levels and just 8% expect to dial back. However, this result signals slightly greater levels of caution than in 2015, when 57% of insurers globally planned to increase investment risk against 38% who expected to maintain it.

Among different classes of insurers this year, P&C insurers are more likely to increase their risk exposure, as cited by 52%, compared with life insurers, where 40% are looking to increase risk, and 11% looking to reduce. P&C insurers expect to spread their increased risk allocations across non-investment grade (35%), equity (28%) and liquid alternatives (26%), while life insurers overwhelmingly favor non-investment grade fixed income (53%). The combination of the need for yield to match product guarantees, and the relatively high capital charges for equity and alternatives for life insurers, is likely to be the key reason behind different asset allocation expectations.

CHART 3: ATTITUDE TO PORTFOLIO RISK



Base: Global (n=315)
Over the next 12-24 months, how do you expect your firm's attitude to portfolio risk to change?
Source: BlackRock Global Insurance Survey, May-August 2016.

Of the four regions surveyed (North America, Latin America, EMEA and Asia-Pacific), North America appears the most risk-averse. It is the only place where more than 10% of respondents expect to cut investment risk and it has the lowest proportion looking to increase investment risk (40%). Taking a business line perspective, 10% and 11% respectively of multiline and life companies globally say they plan to reduce risk exposure, while among property & casualty, reinsurance and health groups the equivalent figures are somewhat lower at 6%, 3% and 2% respectively. Ranked in terms of size, smaller and mid-sized insurers report greater risk aversion than the largest groups. In every size category up to $75 billion of assets, between 8% and 13% plan to reduce risk exposure; among insurers with more than $75 billion of assets that drops to 3%.

Viewed across a three-year span of results, it seems that insurers' willingness to add investment risk increased quite strongly everywhere between 2014 and 2015 before subsiding somewhat in the latest survey. In EMEA for example, 56% of respondents expected to increase their risk exposure in 2015; that now stands at 48%. There was a larger drop from 73% to 50% in Latin America. Only in Asia-Pacific did risk appetite remain broadly consistent between 2015 (51%) and this year (48%).

NO PANIC, OR AT LEAST NO FURTHER PANIC, OVER BREXIT

The financial services industry may have been largely taken by surprise in June by the U.K.'s vote to leave the European Union. For insurers accustomed to taking the long view, however, while Brexit may reinforce the notion that interest rates are going to stay low, it has not created many additional grounds for anxiety.

We ran a special flash poll of over 100 insurers after the vote and found that there were more worries in Asia about Brexit than there were in Europe, as has already been seen by jitters in the Nikkei 225. This, we suggest, is partly because Asian insurers are concerned about the ultimate purchasers of their region's goods in Europe and the medium- to long-term consequences of weaker European economies.

A Chinese insurer told us: "The possible implications for trade, currency volatility and free movement of labor across borders will be of concern to our organization." A Swiss respondent echoed: "There will be a fall in trade and in the price of commodities which can result in a sluggish economy. It won't impact our insurance industry but it may lead to adverse economic backwash."

In Europe, 42% of those polled expressed concern over Brexit compared with 58% saying they had no additional concerns in the short/medium term. Over the medium/ long term, 40% of European insurers were concerned.

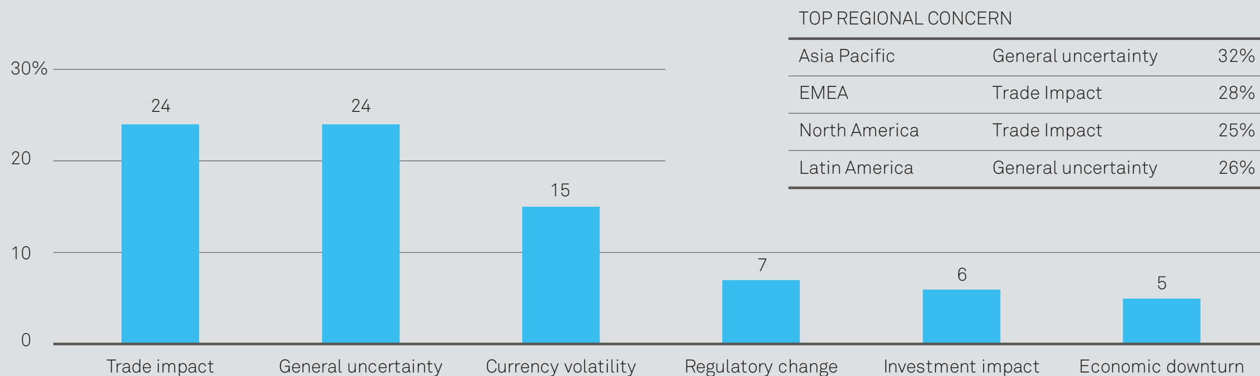
In our earlier survey, the proportion of insurers looking to reduce investment risk was below 10% everywhere except North America, where it crept slightly above that threshold. The referendum result seems to have changed that picture: among insurers we surveyed both before and after the vote, the global percentage looking to reduce risk had climbed to 25%.

Insurers in general expressed some concern about currency volatility, the impact on trade, possible further regulatory changes and a general economic worsening. "If there is a fall in the [U.K.] currency," said one French insurer, "it will affect our sales and profits and this is going to be a deterrent for some time to come." A Japanese insurer adds: "We are concerned about financial reporting considerations, especially foreign currency volatility, impacting our hedging strategies." In the U.S. meanwhile, an insurer said: "Having to monitor an exposure to the U.K. will require time and it can result in a stagnating environment with poor growth."

However, many insurers were relaxed. James Kenney, chief investment officer of Novae, was typical of many when he predicted the effects of Brexit on the investment side would not be very great: "It fits in with what's been a recent environment of having fairly material event risk come up periodically." Brexit therefore reinforces current trends, he believes, and it is too early to pronounce on the long-term effects.

Others were also keen to place Brexit in context, one Brazilian insurer noting pithily: "The political situation in our own country is of greater concern."

CHART 4: BREXIT CHALLENGES



TOP REGIONAL CONCERN

Region	Concern	%
Asia Pacific	General uncertainty	32%
EMEA	Trade Impact	28%
North America	Trade Impact	25%
Latin America	General uncertainty	26%

Base: Global (n=105)
Brexit Flash Poll: What do you think the main Brexit related challenges to your business/ organization will be in the next year?
Source: BlackRock Global Insurance Survey, May-August 2016.

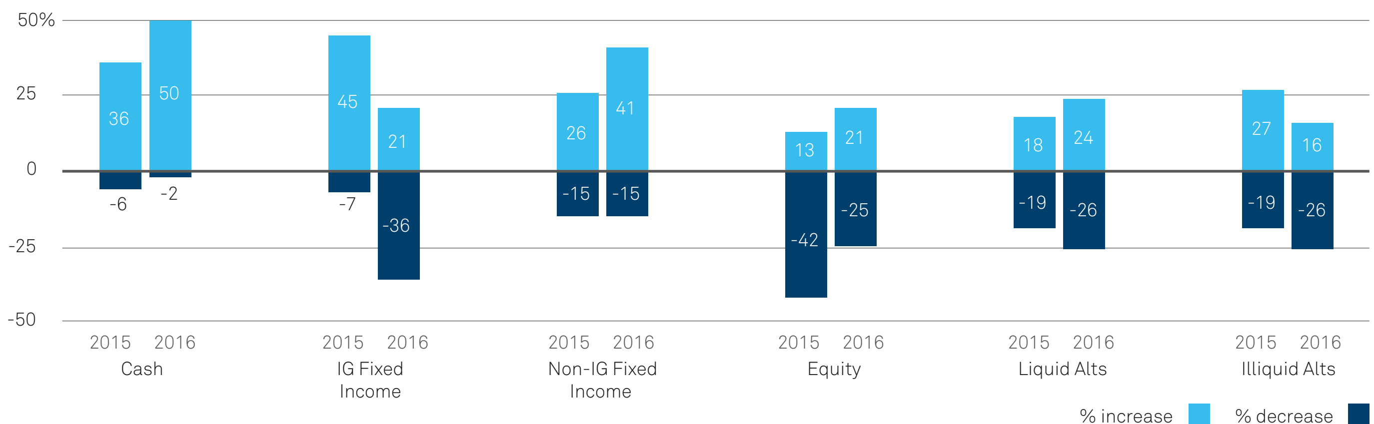
2

Embracing riskier credit and a bit more equity—but also cash and government bonds

The tensions and cross-currents that insurers face in today's investment environment are clear from the asset allocation intentions that our survey reveals. Plans to increase cash holdings have grown very steeply, and intent to allocate more to illiquid alternatives declined. But at the same time, appetite for investment risk remains strong as evidenced by a large drop in intended allocations to investment grade fixed income and an increase in non-investment grade. Insurers' sentiment towards equities has become less negative too.

As well as attitudes towards established asset classes, the survey also reveals how insurers are engaging with a variety of newer investment strategies as the search broadens out for acceptable returns in an uncertain world. The strongest area of interest to emerge was in volatility-controlled products, with 46% globally saying they are investigating this area.

CHART 5: ASSET ALLOCATION



Base: Global (n=315)
For each of the following asset classes, please indicate how, if at all, you will be changing the weighting of your investments over the next 12-24 months.
Source: BlackRock Global Insurance Survey, May-August 2016.

Cash is the reluctant king

Fully 50% of insurers surveyed said they planned to increase their cash holdings in the next few months, up from 36% last year. In North America the intent to increase was even greater.

How to explain this appetite for cash when insurers are otherwise hungry to increase their risk exposure?

- Cash is safe. Its increasing share of allocations coincides with North America's emergence this year as the most risk-averse region in terms of expected investment appetite.

- Cash brings agility. As with last year, a number of interviewees indicated their need for cash in order to move opportunistically when periods of market volatility brought down the prices of assets they liked.
- Cash is valuable collateral. We suspect that many insurers are holding cash as variation margin or collateral for OTC derivative positions, or even as a buffer against margin or collateral requirements arising from any future mark-to-market volatility of the derivatives book. Our research shows that the proportion of insurers using derivatives is very high: 94% globally and 96% in Europe. And they are using derivatives for a variety of reasons including managing currency risk (59%), implementing tactical positioning (55%) and managing duration and yield curve risk (53%) (See Chart 12 in Appendix).

But it would seem in general though that insurers' stockpiling of cash is reluctant; existing holdings generate a great deal of cash, and suitable opportunities to redeploy it are scarce. Moreover, as allocations to cash grow, this threatens an ongoing drag on insurers' ability to generate the returns they need—and in some regions this is stoked by the additional pain caused by negative deposit rates.

"Cash is great if you think you are going to have an opportunity in a few months' time," says Laurent Clamagirand, chief investment officer of AXA. "The issue in the current market is what opportunity is going to emerge in six months? Is the European Central Bank (ECB) going to finish QE and are rates going to normalize? The answer is no. I am fighting against excess cash because I don't believe that in six months' time the market is going to be so different that the carry I lose by being in cash is going to be paid."

The search for returns in fixed income

Our survey also reveals a number of tensions and apparent contradictions in fixed income. Globally, far fewer insurers are planning to increase allocations to investment grade fixed income than last year (21% are looking to increase compared with 45% in 2015).

In cases where insurers have significant derivatives books we suspect that the need to hold cash for collateral and margining purposes is encouraging the adoption of a more pronounced 'barbell' approach to investing—that is, insurers are compensating for the low returns available from the cash they hold by increasing investment in higher-returning fixed income assets.

But the global figure masks deep regional differences—just 4% of North American insurers are looking to increase investment grade while that figure stands at 43% in Asia-Pacific.

"We feel it's more important to protect the credit quality of the portfolio than to seek extra yield," says an executive at an Asian insurer. "The financial markets haven't been so volatile and directionless for many years and unexpected events create flights to quality, so investment grade will continue to be a key priority."

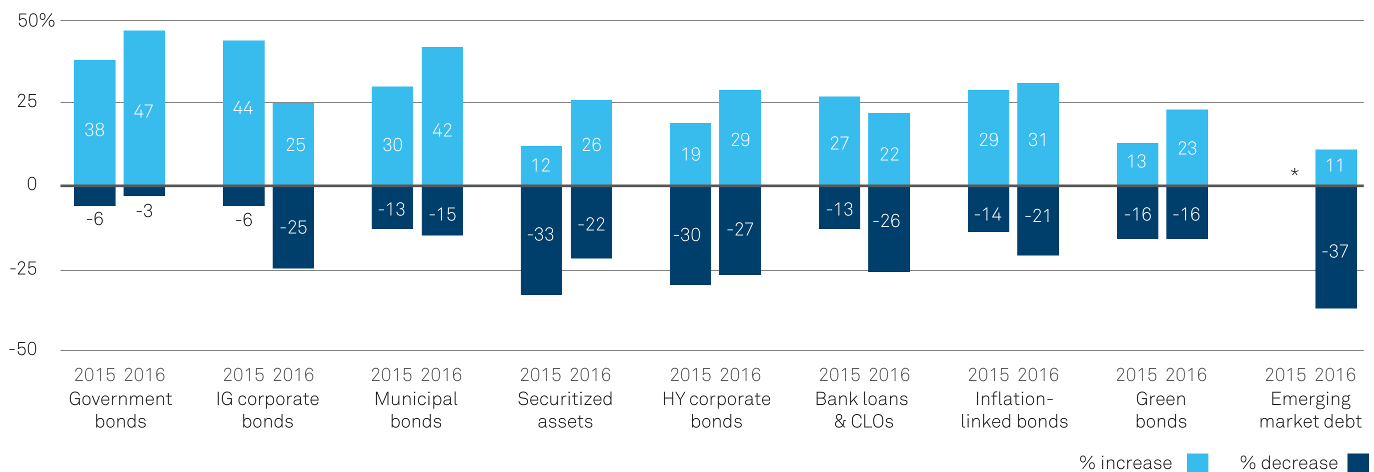
While in general investment grade has become less attractive to insurers casting around for yield, 47% of insurers globally still expect to increase allocations to government bonds, vs. 38% in last year's survey. That, we believe, is because of the zero capital charges that government bonds attract under the new insurance regulatory regime embodied in Solvency II. Government bonds provide an essential counterweight to increasing risk exposure elsewhere in a portfolio.

At that riskier end, some 41% of insurers indicated that their non-investment grade fixed income weightings would increase over the next 12-24 months. This climbed to 47% in EMEA, many of whom are facing the additional challenge of the European Central Bank's widening asset purchases.

Edgar Koning, chief investment officer of Aegon, points out that the spread of the ECB's purchases into areas such as corporate bonds and securitized assets is forcing insurers to seek more risk, but at the same time under Solvency II risk had become more expensive in terms of capital charges. "So these two things really have a major impact…the risk-reward ratio in the market is deteriorating," he adds. "You can challenge whether there's still a real market or whether it's artificial."

And staying at the riskier end of the portfolio, sentiment towards equities has also improved this year with 21% of insurers planning to increase allocations compared with 13% last year.

CHART 6: FIXED INCOME ASSET ALLOCATION



*Not asked in 2015. Base: Global (n=315)
For each type of fixed income, please indicate how, if at all, you will be changing the weighting of your investments over the next 12-24 months.
Source: BlackRock Global Insurance Survey, May-August 2016.

EXPLORING NEW SOURCES OF RETURN

The squeeze insurers are experiencing, and the realization that their traditional business models are under threat, is driving creativity and forcing a repositioning that goes beyond traditional asset classes.

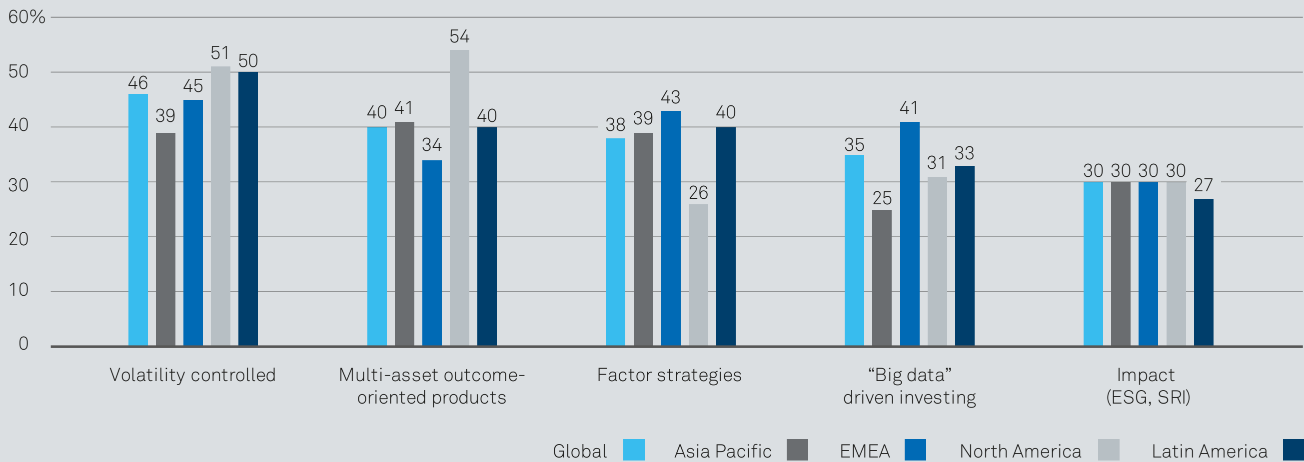
Among insurers looking for new ways to access returns, volatility controlled products are attracting considerable interest. Products that incorporate strong controls on the volatility of the underlying funds may enable insurers to access attractive levels of income at the cost of a relatively low capital charge. “I’m seeing a number of managers coming out with ideas which are Solvency II capital-efficient,” says Jim Hardie, chief investment officer at Direct Line in the U.K.

Volatility control also has a broader attraction in its own right. Globally, 46% of insurers are investigating such products with particularly strong interest emerging in North and Latin America and EMEA.

The other areas that are attracting attention include multi-asset outcome oriented strategies that provide a ready-made source of diversification across asset classes and target a financial goal rather than an investment benchmark.

These were the most cited products among North American insurers that took part in our survey. Tim Harris, finance director at the U.K.-based insurer Royal London, says his company started using multi-asset funds this year and as a result has gained exposure to areas such as commodities and some overseas equities that it would not have traded in previously. Finally, factor strategies that isolate particular sources of investment return are generating particular interest among respondents in EMEA, Latin America and Asia-Pacific.

CHART 7: EMERGING INVESTMENT TRENDS



Base: Global (n=315) North America (n=67) EMEA (n=163) APAC (n=55) LAI (n=30)
In terms of emerging investment trends, in the continued search for return, which, if any, of the following are you currently investigating?
Source: BlackRock Global Insurance Survey, May-August 2016.

BlackRock view

ASSESSING THE OPPORTUNITY SET

BlackRock's five-year capital market return assumptions as of June 30, 2016 are at post-crisis lows, reflecting the recent fall in bond yields and our reduced global growth expectations following the U.K.'s vote to leave the EU.

Almost half of survey participants intend to respond to this environment by increasing their exposure to asset risk. Valuation levels are a key input in our return forecasts. The BlackRock Investment Institute has designed a standardized valuation metric covering most of the asset classes relevant for insurers. How do these valuation signals differ from insurers' intentions, as indicated by responses to our survey?

The most striking difference is in government bonds, the asset class that forms a significant component of many insurers' existing portfolios. These stand out as the most expensive asset class relative to historic norms, reflecting the record low level of yields currently available. Why then might insurers still want to increase their allocations? The most plausible explanation is that government bonds are also a natural match for many types of insurance liabilities, as well as currently having zero capital charge under Solvency II, which our survey shows is having an increasing impact on insurers' investment decision-making around the world. These benefits may at least partially outweigh the low returns, particularly for those insurers where investment returns are not the key driver of profitability, where capital is a constraint or where a 'barbell' investment strategy is being pursued.

Elsewhere, achieving a minimum level of return is the most important concern, even if associated with higher levels of risk. Examples range from continental European products with minimum return guarantees often far above today's yield levels, to general insurers looking to investment income to offset a weakening underwriting cycle.

Despite our model showing both U.S. and Euro investment grade credit to be reasonably priced, insurers in these regions do not appear overly enthusiastic about the asset class. Among other reasons highlighted elsewhere in the report, this may simply be due to the absolute return available not being sufficient, particularly when capital requirements are taken into account, as well as a lack of diversification among already significant corporate bond holdings. Finally, the low yield environment has led to over-bought conditions in many credit sectors, creating valuations not correctly reflective of this late stage in the fundamental credit cycle. These rich valuations, coupled with still deteriorating liquidity, have given many insurers pause, as the potential downside of ownership grows significantly faster than the upside.

Instead, the search for yield is forcing insurers to consider a broader spectrum of the fixed income universe, including municipal bonds and higher returning assets such as high yield and emerging market debt. We view many current valuations as relatively attractive, given valuations elsewhere, although our survey shows attitudes to these asset classes to be mixed. We share insurers' concern over the size and impact of global flows into many of these products, and recognize what is now a helpful tailwind of support could change direction quickly. In addition, we still find some insurers' limited familiarity with these asset classes to be a potential barrier to obtaining buy-in from internal stakeholders, as well as from regulators and auditors. Some of these challenges are borne out by the survey results and may also explain insurers' preference for increasing cash holdings.

Defining an investment strategy that balances the objective of adequate returns with the constraints of manageable regulatory capital requirements and effective governance is becoming increasingly complex. BlackRock has been assisting clients by combining its investment expertise, insurance regulatory knowledge, Aladdin risk platform and broad asset class offering to help insurers to overcome many of these challenges.

Jeff Jacobs
Managing Director,
Global Head, Financial Institutions Group - Portfolio Management

Selectively pursuing private assets, and well attuned to the hurdles

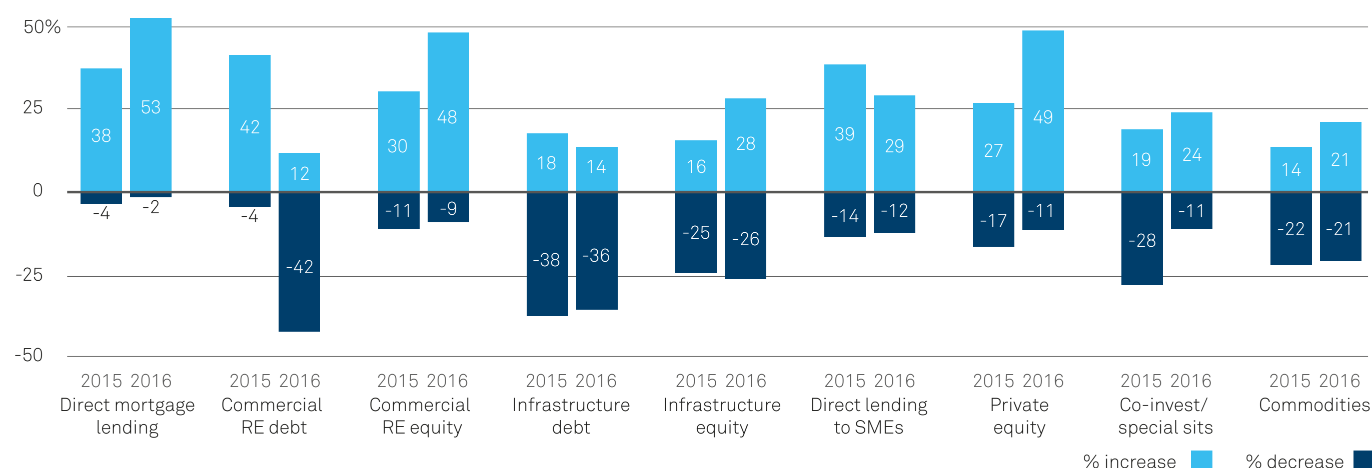
In the quest for alternative sources of return, private market assets hold much promise for insurers. Our survey this year unearthed strong intentions to increase allocations in a number of areas including direct mortgage lending, commercial real estate equity and private equity. Overall, more than 60% of respondents plan to increase weightings to three or more private asset types. But insurers face a raft of barriers to realizing their ambitions in these areas, both internally and externally. We asked about how these barriers were being tackled, and uncovered a great deal of effort, no doubt a reflection of the growing importance that insurers attribute to these growing asset classes.

Getting closer to the asset

There was strong interest in certain real estate-related opportunities. Some 53% of insurers plan to increase their exposure to direct commercial mortgage lending, compared with 38% last year, while in commercial real estate equity, 48% planned an increase compared with 30% last year.

This marked shift towards direct lending may reflect a desire among insurers to capture more of the return that these assets may generate by removing intermediaries. Gilles Dellaert, chief investment officer of Global Atlantic, says: "We've been focused on getting away from the end of the securitization chain and getting closer to the asset across a variety of asset classes for the better part of three years now."

CHART 8: PRIVATE MARKET ASSET ALLOCATION



Base: Global (n=315)
For each type of private market asset, please indicate how, if at all, you will be changing the weighting of your investments over the next 12-24 months
Source: BlackRock Global Insurance Survey, May-August 2016.

Interest in private equity highlights this move too, with 49% planning to increase allocations compared with 27% last year. That figure rises to 55% in Asia-Pacific, over 27% last year. Our results also showed a notable resurgence of interest in co-investment opportunities since 2015 and to a lesser extent infrastructure equity, compared with 2015.

But not everything is up. Sentiment towards direct corporate lending to small and medium enterprises (SMEs) has weakened, with just 29% planning an increase compared with 39% last year. And commercial real estate debt is less attractive everywhere except Asia-Pacific.

In interviews related to these allocations, respondents often cited a lack of supply as a limit on their activities. "There are many people talking about [private market assets] but who's really doing it and how much have they been able to invest?" asks Laurent Clamagirand, chief investment officer of AXA. "We have been active in private debt in Europe and the U.S. But if you want to deploy €1bn in private debt with one provider in Europe, forget about it. It's impossible. You can only do that in the U.S."

Internal barriers to overcome

Insurers are already working hard to ensure that as they step out of their traditional areas of expertise they are ready to embrace the opportunities that private market asset classes represent.

Some 31% of respondents said they were investing in risk tools, 30% said they were preparing platforms to support new asset classes, 27% said they were setting a liquidity budget for private markets. Crucially, 27% also said they were working on education for internal stakeholders.

However, insurers say that a particular difficulty with proposed private market investments is the perennial need to strike a balance between the time and effort required to gain approval and start investing in a new asset class, and the size of the eventual opportunity. If the analysis, governance and approval process takes between six months and a year to complete, some may find it hard to justify the work, if they cannot ultimately deploy meaningful sums of money. The need to make careful judgments of opportunity cost looms large.

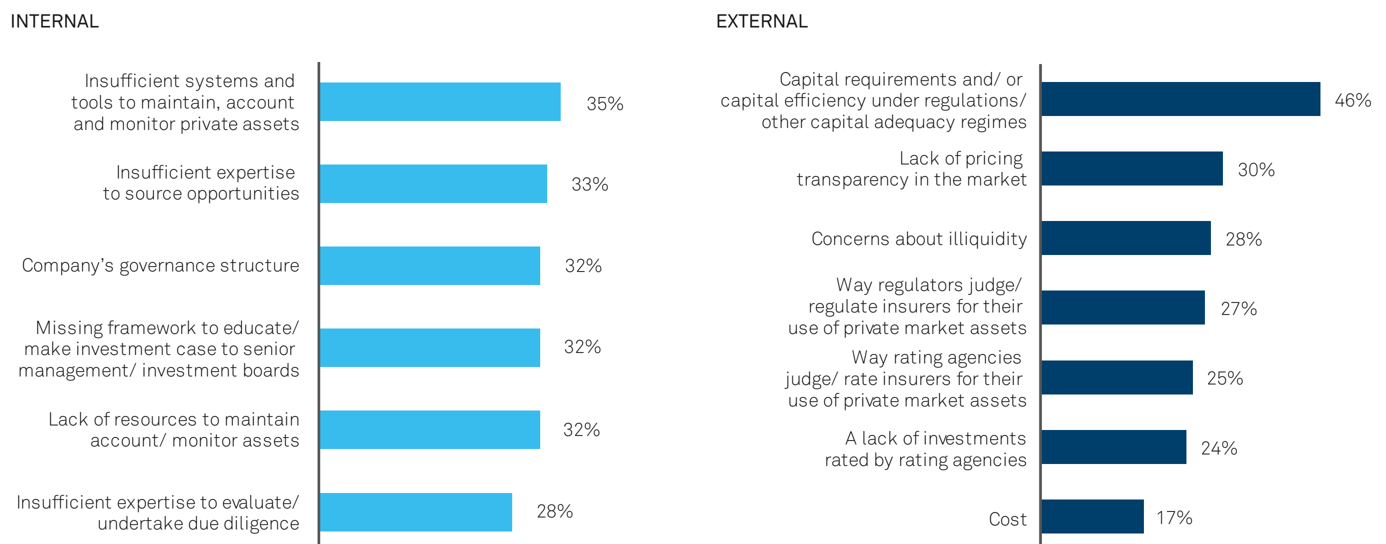
An Asian insurance executive pointed to the challenge of making the case internally for private market allocations. "These assets carry a stigma [with boards and investment committees]. We will definitely need to engage with management a lot to [help them] understand and even to get a slight improvement in the allocation. This is going to be an ongoing process and we may have no choice but to increase slowly."

And externally there is a need for transparency

The major external obstacles to investing in private markets are dominated by issues of capital requirements and/or capital efficiency of these investments, a concern highlighted by 46% of survey respondents. The lack of transparent pricing (30%), concerns about illiquidity (28%) and the attitudes of regulators and ratings agencies also figured prominently.

Insurers said their organizations' focus on mitigating these issues centered on working with rating agencies to get private assets rated (33%), seeking to expand their own knowledge (32%), working more closely with peer institutions (29%) and trying to educate external stakeholders (25%). In addition, 25% say they are increasing their capital base.

CHART 9: BARRIERS TO INVESTING IN PRIVATE MARKET ASSETS



Base: Global (n=315)
What are the key internal barriers to investing in private market assets?
What are the key external barriers to investing in private market assets?
Source: BlackRock Global Insurance Survey, May-August 2016.

BlackRock view

OVERCOMING REAL BARRIERS

Real estate, infrastructure and other real assets have long attracted insurers because of their potential to provide inflation protection, capital appreciation, duration and diversification. But one crucial element—cash yield—has particularly stood out since the financial crisis.

In an era of persistently low interest rates, many insurers depend on the predictable income streams real assets may generate to meet their liabilities. Yet they face a series of hurdles when allocating more to the asset class. Survey respondents highlighted several barriers, including a perceived shortage of investment opportunities and difficulties in assessing risk.

Neither is surprising. Rising competition for deals is making access more difficult, and is increasingly a key differentiating factor for success. Certain real assets such as infrastructure debt (where insurers were early adopters) now enjoy reduced capital charges under Solvency II in Europe, with similar regulatory treatment potentially in the offing elsewhere, including in the U.S. Amid a general eagerness to deploy capital in real assets, strong demand is bound to further outstrip supply.

In this climate, it is more important than ever for investors to consider real asset investments in light of their specific objectives, taking into account such factors as risk tolerance, return targets and liquidity requirements. What is possible is evolving, and there are now many more options in modeling techniques, data availability and investment opportunities from which to meet insurers' goals.

Some investors are beginning to combine real estate with infrastructure—a relatively newer addition to investment portfolios—in a single real assets platform. This makes sense given the common skill sets and resources needed to invest in each, as well as the similar investment case they share. Moreover, like traditional portfolios comprising stocks and bonds, real assets have grown increasingly diverse, spanning a range of exposures across core, value-add and opportunistic strategies.

A real assets grouping is just a first step, however. Further optimizing a real assets allocation means looking beyond immediate efficiencies and identifying commonalities on a deeper level. A view of the whole real assets opportunity set—one that employs a common language of risk and return—can help investors to overcome the hurdles and make good on the promise of outcome-oriented investments.

We believe a top-down and bottom-up assessment of underlying risk is both possible and necessary, not just for individual projects but also in terms of how individual investments fit into the broader portfolio. Along with access to the broadest number of deals, specialist expertise and the right processes to implement strategies are vital in a competitive market.

Investing in real assets has its challenges, but the toolkit needed to address them is available. The ability to decompose the risk and return characteristics of infrastructure, real estate and other real assets can help investors to target their objectives with greater clarity—thereby improving their chances of achieving them.

Jim Barry
Managing Director,
Global Head of BlackRock Real Assets Group

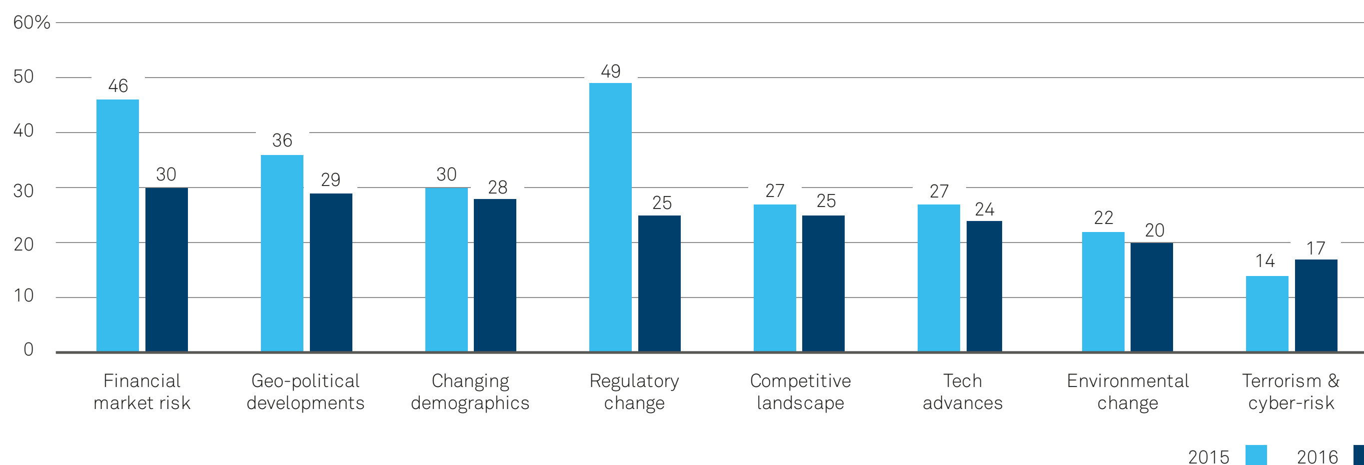
Growing accustomed to Solvency II—but still worried about regulatory risk

The still-changing legal and regulatory framework within which insurers must juggle all the contradictory issues outlined in previous sections continues to exert a big influence on decision-making, although many aspects of the picture have evolved since our 2015 survey.

Regulatory risk remains a significant macro risk factor globally, ranking third in 2016 at 46%, six percentage points higher than in 2015. Against that, however, new regulation is no longer seen as an especially critical driver of change in the insurance industry.

A year ago, with implementation in Europe of Solvency II fast approaching, 49% of insurers worldwide pointed to new regulation as the most critical driver of change in their industry over the next 12-24 months—the highest score accorded to any of the options, ahead even of financial market risk. This year, with the big Solvency II deadline having come and gone, just 25% highlighted regulatory reforms as a critical driver of change, outscored by changing demographics (28%), geopolitical developments (29%) and financial market risk (30%).

CHART 10: CHANGE DRIVERS IN INSURANCE



Base: Global (n=315)
What do you believe are the most critical drivers of change in the insurance industry in the next 12-24 months?
Source: BlackRock Global Insurance Survey, May-August 2016.

Globally, therefore, it appears that insurers are more comfortable about the challenges of managing new regulations even though the work required from those operating in Europe to implement Solvency II will continue for some time yet. "The logistical effort in implementing Solvency II has been immense," says Tim Harris, chief financial officer of Royal London. "We are having to replace all of our finance and actuarial systems to ultimately get our internal risk model approved and that's costing a lot of money."

While insurers now seem less focused on the challenges of imminent regulatory change than they were in 2015, we wanted to understand better the effect that the regulations are having on investment decision-making (See Chart 13 in Appendix).

Effects on investment decision-making

Globally, one of the key issues to emerge from our survey is the impetus from new regulations to 're-optimize asset allocation.' This reflects the need to use regulatory capital efficiently in setting investment strategy. Across all regions the need to improve risk management and investment reporting also figured among the top two anticipated decision-making changes.

For North American respondents, the other main impact by some distance was expected to be the need, cited by 45% of respondents, to expand knowledge of new asset classes such as the private market assets we have already discussed. A significant number—33%—also said they would need to expand the range of asset classes they used in order to improve returns and/or increase diversification (See Chart 13 in Appendix).

In Asia, the second most anticipated effect, cited by 38%, was greater use of tactical asset allocation to help increase portfolio efficiency. Among Latin American companies, re-optimizing asset allocation was cited by 53% and was by far the most significant change foreseen, although a third also said they were likely to make less use of mutual funds and lean more towards private market assets and/or investment mandates (See Chart 13 in Appendix).

The long arm of Solvency II

Of specific regulations themselves, Solvency II was easily the most prominent in insurers' minds, all over the world. Some 53% globally cited it as having the biggest impact, well ahead of the 12% that mentioned Base Erosion and Profit Shifting (BEPS) and European Market Infrastructure Regulation (EMIR). In EMEA, as expected, Solvency II ranked far ahead of any other issue with 61% placing it first, against 22% citing EMIR. But even in North America Solvency II far outweighed Dodd Frank and BEPS, while in Latin America and Asia-Pacific Solvency II emerged as a much stronger focus than Basel III or, in Asia's case, BEPS.

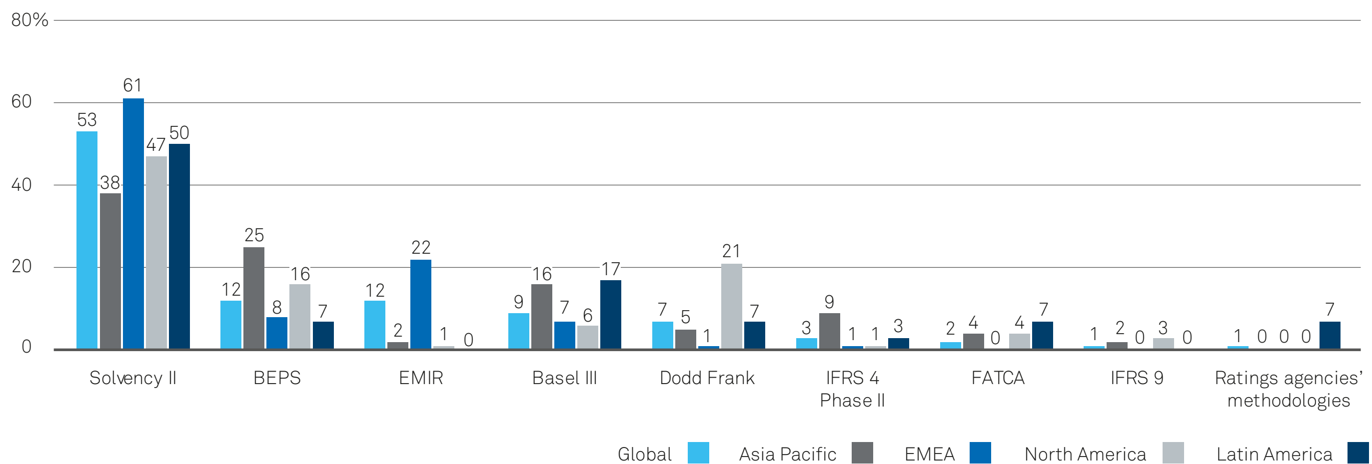
This global focus on European regulation may be partly due to the global nature of insurance operations, though many interviewees also indicated that elements of Solvency II offered a strong indication of the direction of travel for global insurance regulation generally over the next few years.

When asked what challenges they expect to face from Solvency II or forthcoming similar regulations, the two main issues cited by insurers globally were a shortage of relevant investment opportunities that allow for compliance across their portfolios (cited by 33%) and difficulties with risk modeling (cited by 28%). These findings reinforce the need to focus on developing high-quality systems to help insurers model and manage the risks in their portfolio, particularly during a period when risks of all sorts are elevated and returns across asset classes are under considerable pressure. This is likely to remain a key area for some time to come.

Beyond EMEA, the lack of investment opportunities was also keenly felt in Asia-Pacific (cited by 38%) and Latin America (cited by 47%), although the other main concerns were the potential increase in capital charges and greater volatility in the profit and loss account.

In North America the top two challenges were expected to be insufficient risk systems (cited by 36%)—mirroring somewhat the major concern among insurers in EMEA—and the need to seek approval for new investments from regulators or auditors, also selected by 33% of respondents.

CHART 11: REGULATIONS IMPACTING INVESTMENT DECISIONS



Base: Global (n=315) North America (n=67) EMEA (n=163) APAC (n=55) LAI (n=30)
Which regulations are having the biggest impact on your investment decision-making?
Source: BlackRock Global Insurance Survey, May-August 2016.

This accorded closely with the view expressed by Edgar Koning, chief investment officer of Aegon, on the key effects he felt Solvency II was having: "In a system where market risk is measured to calculate the capital you require, diversification is very important. Also, because of the models you use, and the complexities and volatility in the system, you need to be more precise. So it's a challenge to manage it better… You need quality information, good models and knowledge of a lot of different factors that are relevant in a risk position."

Most non-European insurers are monitoring the progress of Solvency II in Europe because many feel it is only a matter of time before they too are subject to capital reform. Although the focus on a central risk model may not be replicated everywhere, there is general agreement that the framework of capital charges that insurers face is likely to change.

At this point our interviews indicate that North American regulations do not appear to be heading towards a similar approach to Solvency II. But Eric Kirsch, global chief investment officer of Aflac, says that in Japan, where much of his business is based, the regulator is 'field testing' a 'surplus to risk ratio' which will be closer to Solvency II. "We recognize that somewhere over three to five years, whether it starts in Japan or globally, there are going to be some new standards," he says.

A senior Asian insurance executive says: "There's no direct pressure from our regulators but as a company we think about Solvency II and economic capital because it's been talked about a lot and although there's no firm timeline from the regulator we want to be ahead."

BlackRock view

GAME CHANGE

As we look at the survey responses from a broad range of market participants, it is hard to escape the conclusion that 2016 may be the year that insurance companies understood that the game has really changed.

Interest rates have been low for a long time but recently moved into what can only be described as ultra-low territory. The expectation—or maybe just the hope—had been that rates would rise soon and in a controlled manner, even though 'soon' was never really defined. This year, those who still believe in 'soon' have slipped into a minority. Informal discussions with our insurance client base point to a time horizon of four years or more before we see any significant upward movement.

At the same time regulatory changes are having a significant impact, particularly in Europe through the introduction of Solvency II. Having loomed for at least a decade, capital requirements for market risk have finally come into force, at precisely the time that insurers are ramping up their exposure to riskier assets in order to sustain current business models. In the rest of the world, the regulatory direction of travel looks similar, as Solvency II increasingly serves as a template for other regions, although the details will necessarily be different.

The need to be smart about how one takes market risk—and about how to profit from opportunities to diversify risk across a broader set of investments—has reached an inflection point. There is limited opportunity in the traditional asset classes where insurers have their core expertise, and they are being forced to cast the net wider. But without the proficiency and the infrastructure needed to support new asset classes effectively, insurers are constrained in their ability to take up the tools that they believe hold so much promise.

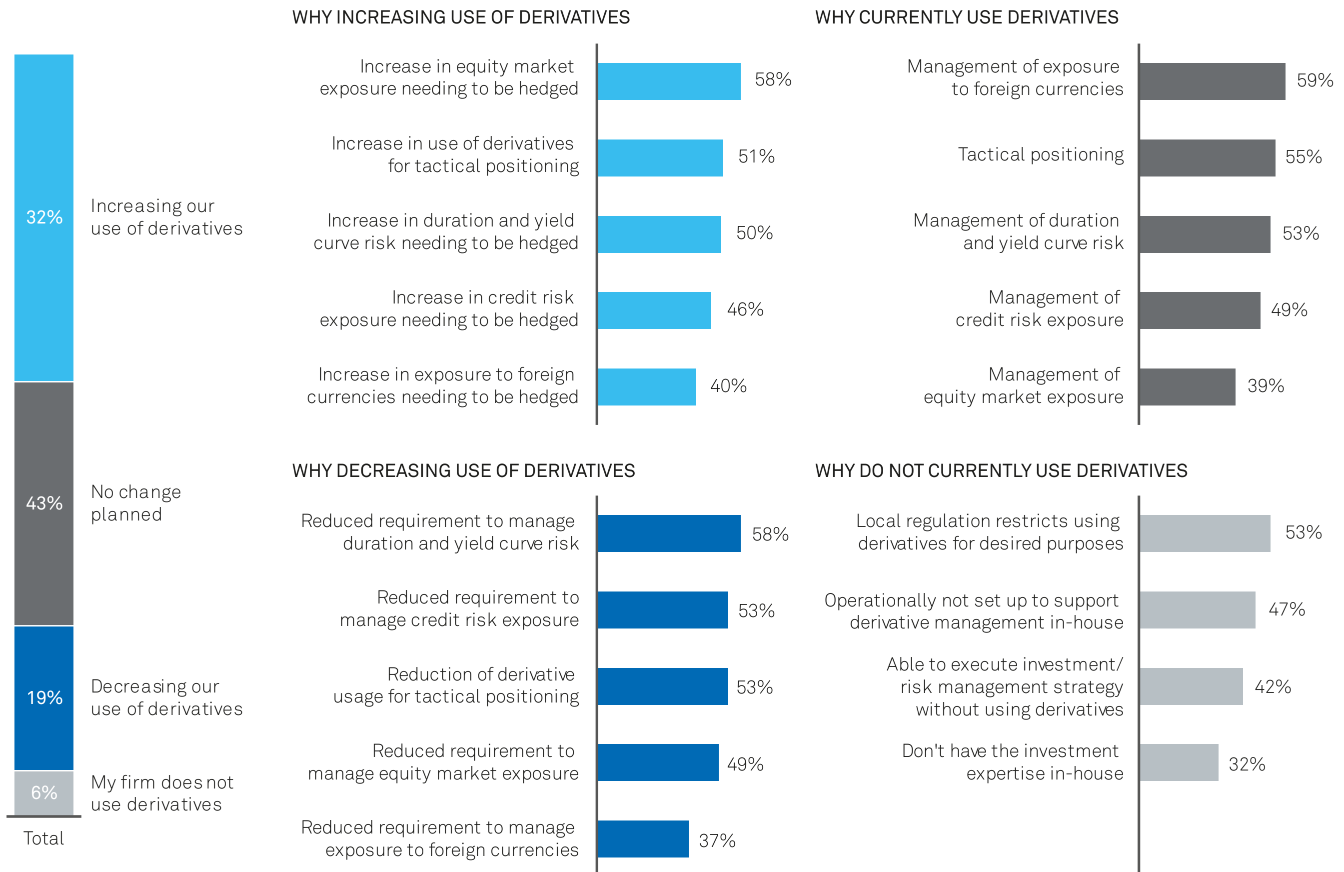
References in the survey to an insufficient supply of investment opportunities indicate the need to be efficient and fleet-of-foot. They also demonstrate how, in an ultra-low interest rate environment, expectations about the future performance of asset classes will have to be adapted. In many cases insurers have understood this and have developed risk tools, platforms and governance frameworks to support new asset classes. Internal stakeholders are also being educated about more realistic expectations. More fundamentally, industry participants are thinking radical thoughts about the types of products and guarantees they can and should provide.

We continue to live in challenging times. While insurers have accomplished a great deal, there is still much to be done. The companies that can adapt to the new ultra-low environment will be the ones that can expand their businesses, often at the expense of those unready or unable to change their ways. BlackRock looks forward to being there to help insurers achieve their goals, providing information, market intelligence and support along the way.

Mark McCombe
Senior Managing Director,
Global Head, Institutional Client Business and
Co-Head, BlackRock Alternative Investors

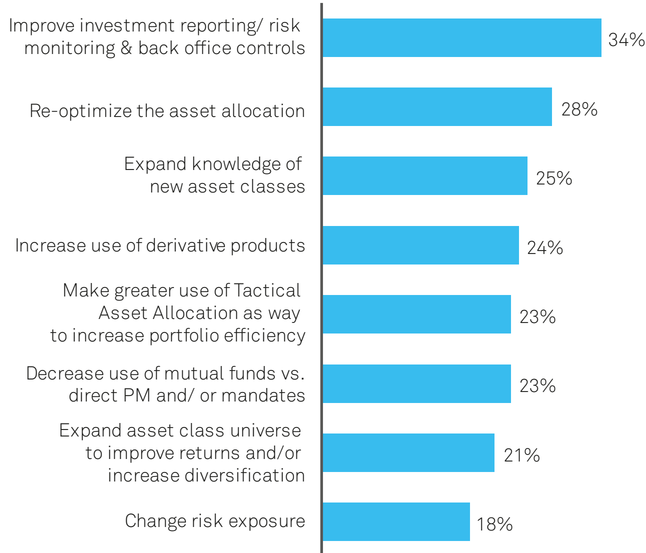
Appendix

CHART 12: USE OF DERIVATIVES



Base: Global (n=315)
How, if at all, is your company's use of derivatives expected to evolve over the next 12-24 months?
Why are you planning to increase your use of derivatives over the next 12-24 months?
Why do you currently use derivatives?
Why do you expect to use derivatives less over the next 12-24 months?
Why do you not currently use derivatives?
Source: BlackRock Global Insurance Survey, May-August 2016.

CHART 13: CHANGES AND CHALLENGES DUE TO SOLVENCY II



Base: Global (n=166): Thinking specifically about the impact this regulation is having on your investment decision-making, what, if any, changes do you anticipate making in the next 12 months? Q8: In considering the change(s) you may make in relation to Solvency II, what, if any, challenges do you anticipate?
Source: BlackRock Global Insurance Survey, May-August 2016.

BlackRock commentators

David A. Lomas, Global Head, Financial Institutions Group - Client Business

David Lomas, Managing Director, is the global lead for the financial institutions business, which focuses on managing balance sheet and sub-advisory assets, and providing risk management services. In this capacity, he is responsible for BlackRock's insurance strategy, service offering, client strategy and client proposition. Mr Lomas is a member of BlackRock's Global Operating Committee and BlackRock's Institutional Client Business Executive Committee.

Jeff Jacobs, Global Head, Financial Institutions Group - Portfolio Management

Jeff Jacobs, Managing Director, is the global lead for portfolio management for the financial institutions group (FIG). He is responsible for partnering with insurance clients to set portfolio and balance sheet strategy, and to bring the full breadth of BlackRock's market knowledge and access to clients, the FIG client team, and other partners across the firm. He has been a member of the Financial Institutions Group at BlackRock since its inception, holding a variety of positions, including Co-Head of FIG Portfolios, and Senior Portfolio Manager.

Jim Barry, Global Head, BlackRock Real Assets

Jim Barry, Managing Director, leads BlackRock's Real Assets platform and is responsible for strategic direction, implementation of investment strategies and growth in areas including infrastructure and real estate. Mr. Barry founded BlackRock's infrastructure business in 2011 with the launch of the Global Renewable Power group. Mr Barry spent 11 years as CEO of NTR PLC, a leading developer, owner and operator of infrastructure assets.

Mark McCombe, Global Head, Institutional Client Business and Co-Head, BlackRock Alternative Investors

Mark McCombe, Senior Managing Director, is Global Head of BlackRock's Institutional Client Business, and Co-Head of BlackRock Alternative Investors. Mr. McCombe is responsible for driving the growth of BlackRock's institutional business and alternatives presence globally. He is a member of BlackRock's Global Executive Committee, and previously served as Chairman of BlackRock's Asia Pacific region.

Notes

About BlackRock's Financial Institutions Group

We work in close partnership with insurers, offering investment management, strategic advice, liability assessment and alongside our colleagues in BlackRock Solutions, investment accounting and risk management services. Through our deep commitment to this partnership, we seek to help our clients succeed in an investment environment characterized by increasingly complex financial, accounting and regulatory developments.

Our Insurance practice has more than 260 dedicated Insurance specialists globally, of which 100 are dedicated to servicing more than 161 insurers in 38 countries from our offices in New York, San Francisco, Princeton, London, Munich, Copenhagen, Amsterdam, Milan, Hong Kong and Tokyo. We manage $264 billion in unaffiliated general account assets and $144 billion in sub-advised assets on behalf of our clients and have 29 insurance-dedicated portfolio management professionals.

Data as of June 30, 2016. Source: BlackRock

Want to know more?

+1 212 810 5300

blackrock.com

This material is provided for educational purposes only and 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 September 2016 and are subject to change. References to specific securities, asset classes and financial markets are for illustrative purposes only and are no intended to be and should not be interpreted as recommendations. Indices do not include fees or operating expense and you are not able to invest directly in an index. Platform is currently an internal tool and there is no guarantee that it will be available for external use.

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, any historical performance information of other investment vehicles or composite accounts managed by BlackRock, Inc. and/or its subsidiaries (together, "BlackRock") included in this material is presented by way of example only. No representation is made that any 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. Past performance is no guarantee of future results. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy.

For recipients in the EU: In the EU issued by BlackRock Investment Management (U.K.) Limited (authorized and regulated by the Financial Conduct Authority). Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Registered in England No. 2020394. Tel: 020 7743 3000. For your protection, telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (U.K.) Limited. In Canada, this material is intended only for institutional investors that qualify as both an "accredited investor" and a "permitted client" as defined by Canadian securities laws. This material is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. For recipients in Hong Kong: This document is provided by BlackRock Asset Management North Asia Limited. The Fund mentioned herein has not been registered with the Securities and Futures Commission for offering or distribution in Hong Kong. Accordingly, this material may not be circulated or distributed, nor may the Funds be offered or sold whether directly or indirectly, to any person in Hong Kong other than to a Professional Investor as defined in the Securities and Futures Ordinance ("SFO") (Cap. 571 of the laws of Hong Kong) and any regulations there under. Investments involve risks. Past performance is not a guide to future performance. This material is provided for informational or educational purposes only and does not constitute a solicitation of any securities or BlackRock funds 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. Before making an investment decision, investors should read the relevant offering documents carefully including the investment objective and risk factors relating to the Fund. Issued in Singapore by BlackRock (Singapore) Limited (Co. registration no. 200010143N) for institutional investors only. Some of the funds mentioned herein have not been registered with the Monetary Authority of Singapore for offering or distribution in Singapore. Accordingly, this information may not be circulated or distributed, nor may the funds be offered or sold whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor pursuant to Section 304 of the Securities and Futures Act ("SFA") or (ii) otherwise pursuant to and in accordance with the conditions of any other applicable provision of the SFA. FOR PROFESSIONAL AND INSTITUTIONAL INVESTORS IN TAIWAN: Independently operated by BlackRock Investment Management (Taiwan) Limited. Address: 28/F, No. 95, Tun Hwa South Road, Section 2, Taipei 106, Taiwan. Tel: (02)23261600. For distribution in Korea for Professional Investors only (or 'professional clients,' as such term may apply in local jurisdictions) Not approved for client distribution in Japan. Notice to investors in Australia: Issued in Australia by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975 AFSL 230 523 (BIMAL), for the exclusive use of the recipient who warrants by receipt of this presentation that they are a wholesale client as defined under the Australian Corporations Act 2001 (Cth). This presentation is intended only for wholesale clients and this presentation must not be relied or acted upon by retail clients. This presentation provides general information only and has not been prepared having regard to your objectives, financial situation or needs. BIMAL, its officers, employees and agents believe that the information in this presentation and the sources on which the information is based (which may be sourced from third parties) are correct as at the date of this presentation. While every care has been taken in the preparation of this presentation, no warranty of accuracy or reliability is given and no responsibility for this information is accepted by BIMAL, its officers, employees or agents. Except where contrary to law, BIMAL excludes all liability for this information. This presentation has not been prepared specifically for Australian investors. It may contain references to dollar amounts which are not Australian dollars. It may contain financial information which is not prepared in accordance with Australian law or practices. For recipients in Latin America: In Latin America, for institutional investors and financial intermediaries only. This material is for educational purposes only and does not constitute an offer or solicitation to sell or a solicitation of an offer to buy any shares of any fund or security and it is your responsibility to inform yourself of, and to observe, all applicable laws and regulations of your relevant jurisdiction. If any funds are mentioned or inferred in this material, such funds have not been registered with the securities regulators of Brazil, Chile, Colombia, Mexico, Panama, Peru, Uruguay or any other securities regulator in any Latin American country and thus, may not be publicly offered in any such countries, except for Chile where certain funds have been registered with the Superintendencia de Valores y Seguros for public offering and in Mexico where certain funds have been listed on the international quotation system (Sistema Internacional de Cotizaciones, SIC) of the Mexican Stock Exchange (Bolsa Mexicana de Valores, S.A.B. de C.V.). The securities regulators of any country within Latin America have not confirmed the accuracy of any information contained herein. No information discussed herein can be provided to the general public in Latin America. The contents of this material are strictly confidential and must not be passed to any third party.

FOR INSTITUTIONAL, FINANCIAL PROFESSIONAL, AND PERMITTED CLIENTS USE ONLY. THIS MATERIAL IS NOT TO BE REPRODUCED OR DISTRIBUTED TO PERSONS OTHER THAN THE RECIPIENT.

©2016 BlackRock, Inc. All rights reserved. BLACKROCK, and iSHARES, are registered trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

Prepared by BlackRock Investments, LLC, member FINRA.

UIM-0468

BLACKROCK®