



Smart Beta: Unlocking key drivers of return

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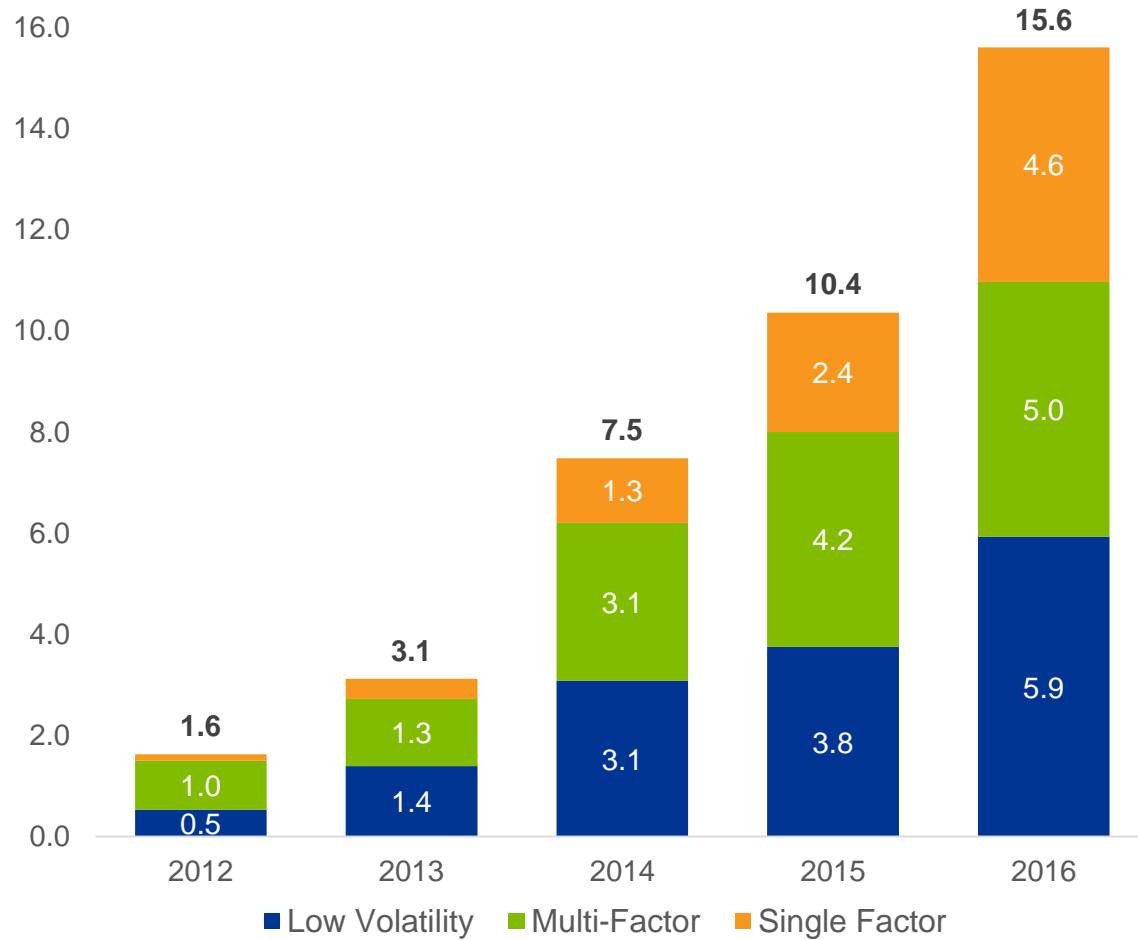


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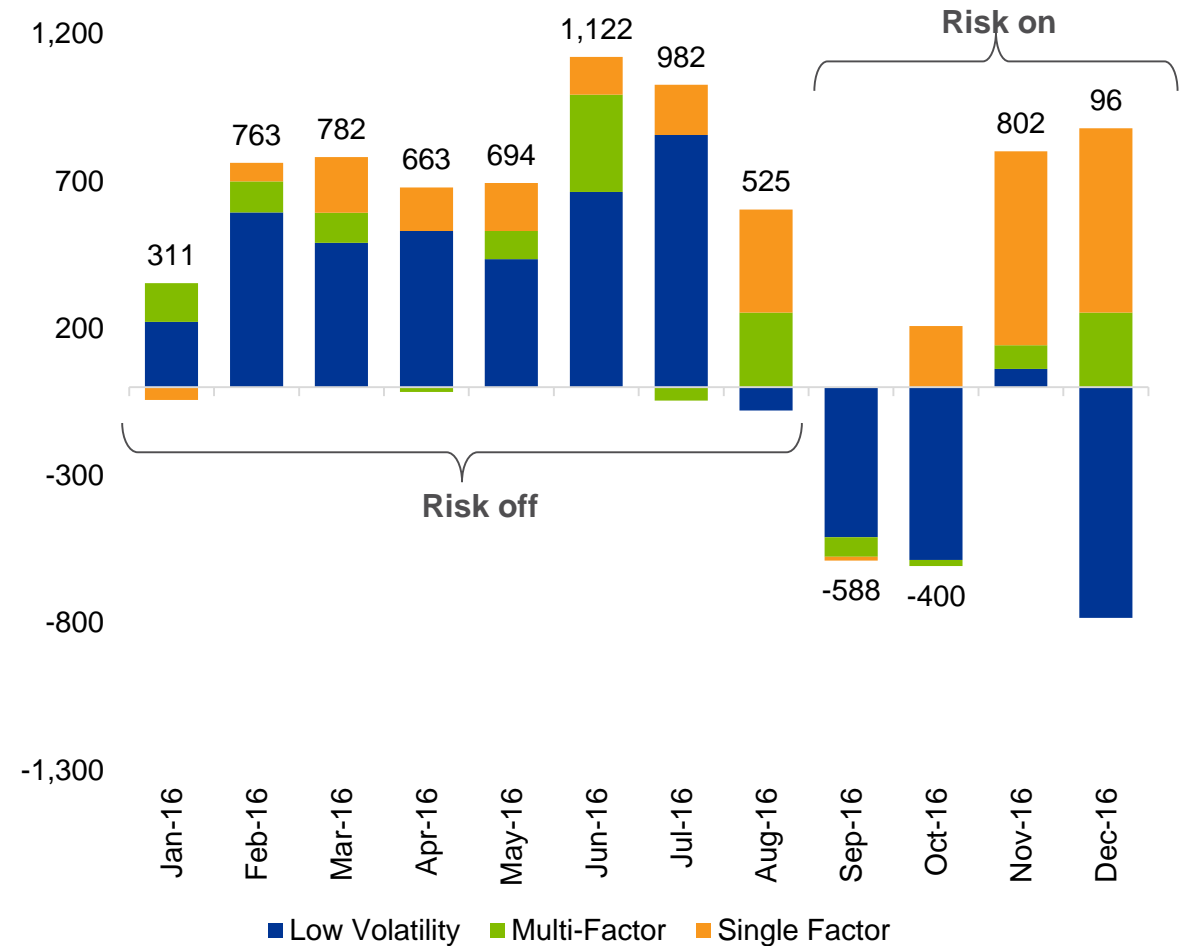
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EMEA Factor ETFs

AuM in bn USD

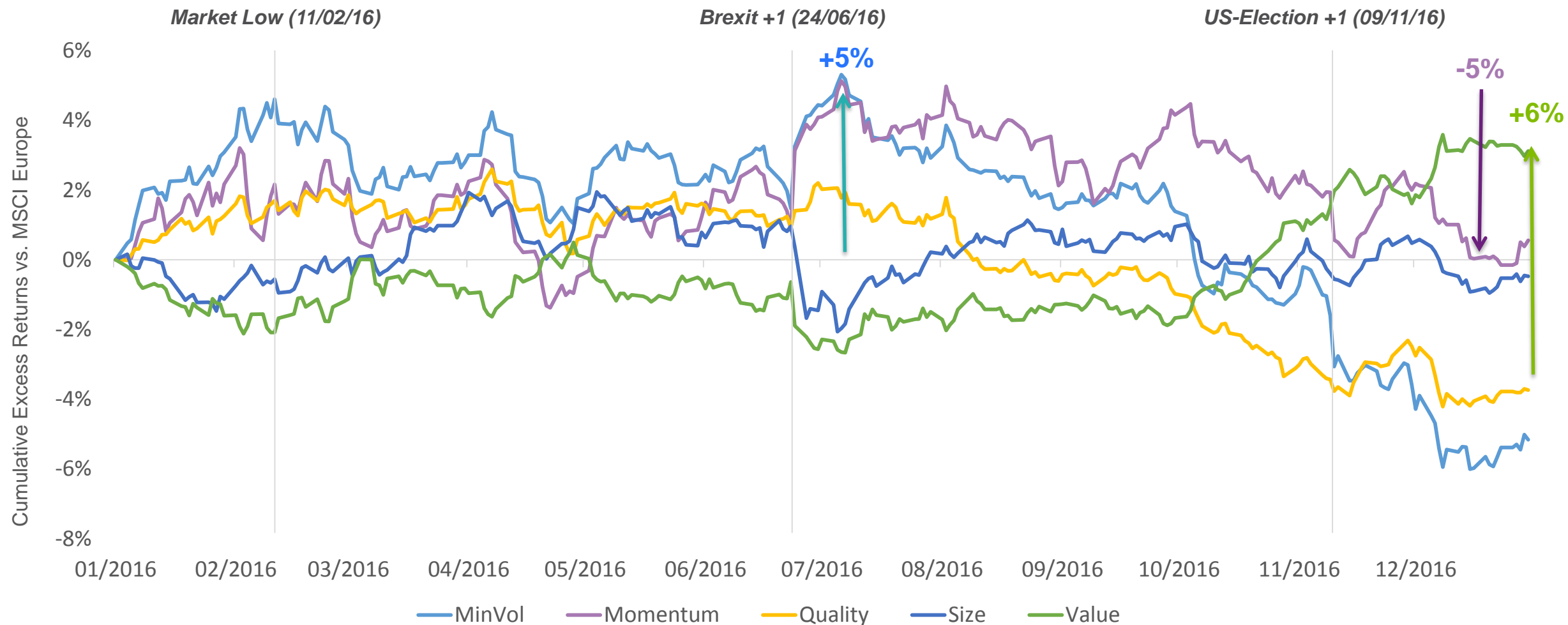


NNA 2016 in m USD



Source: BlackRock ETP Landscape as of 30/12/2016

2016: The year in factors



MSCI index methodology resources available at www.msci.com. MSCI Europe Momentum Index denoted as Momentum; MSCI Europe Mid-Cap Equal Weighted denoted as Size; MSCI Europe Enhanced Value Index denoted as Value; MSCI Europe Quality Sector Neutral Index denoted as Quality; MSCI Europe Minimum Volatility denoted as Min Vol. Index returns are for illustrative purposes. Index performance returns do not reflect management fees, transactions costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. This analysis contains back-tested index data. Data for time periods prior to the index inception date is hypothetical and is provided for informational purposes only to indicate historical performance had the index been available over the relevant time period.

What is a factor investor to do?



Economic Regime Signals

- Factors allocated across 4 regimes: **Expansion, slowdown, contraction, recovery**
- Recent **GDP growth**, leading indicators to project GDP **acceleration** and **deceleration**



Valuation Signals

- **Bottom-up** valuation of firms within each factor relative to historical average and to other factors
- Metrics: **Cash flow to price, earnings to price**

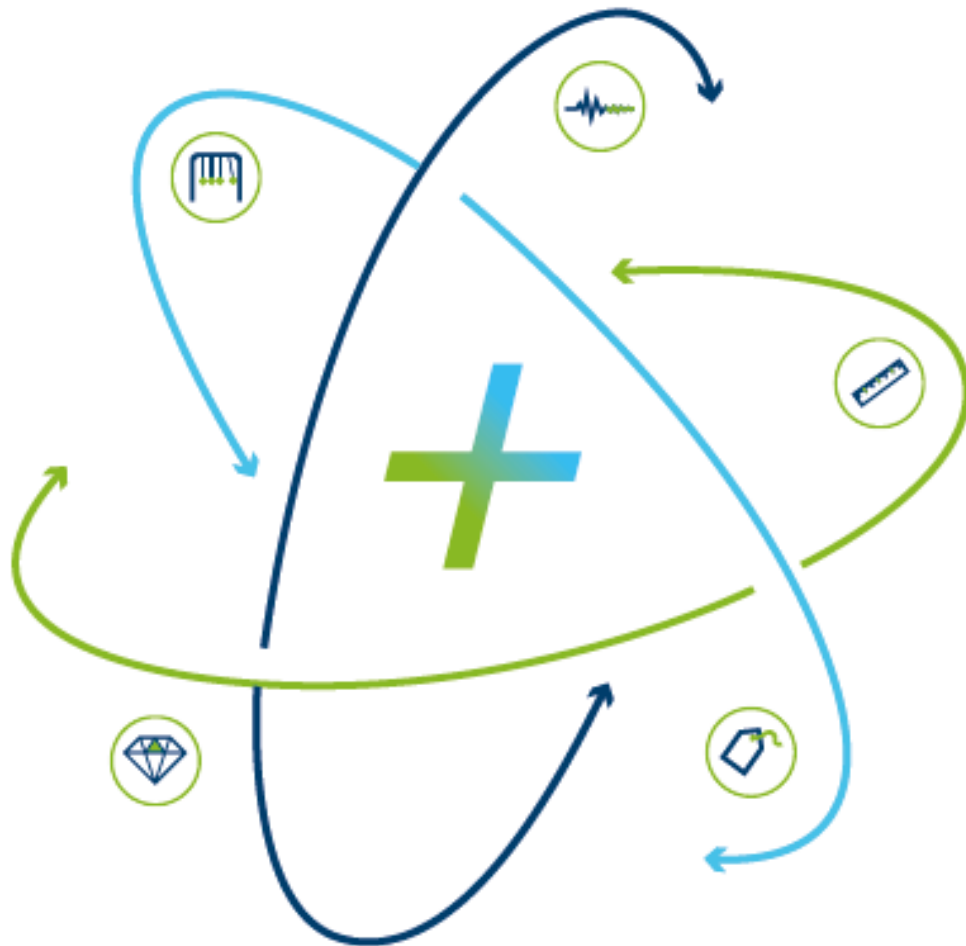


Technical and Sentiment Signals

- Blend of approaches incl. bottom-up analysis of **Momentum** holdings and price trends to gauge market sentiment
- Metrics: Recent vs. historical factor price, Momentum factor holdings, **dispersion** in holdings within factors.

Source BlackRock as of 30/12/2016. For illustrative purposes only.

Looking into 2017



	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
US Quality			
US Size			
US Momentum			
US Value			
US Minimum Volatility			

Source: BlackRock as of December 30, 2016. This outlook applies to the named US factor indices only. Portfolio composition and signal outlook for other indices and other geographies may differ. Model inputs and factor outlook are subject to change.

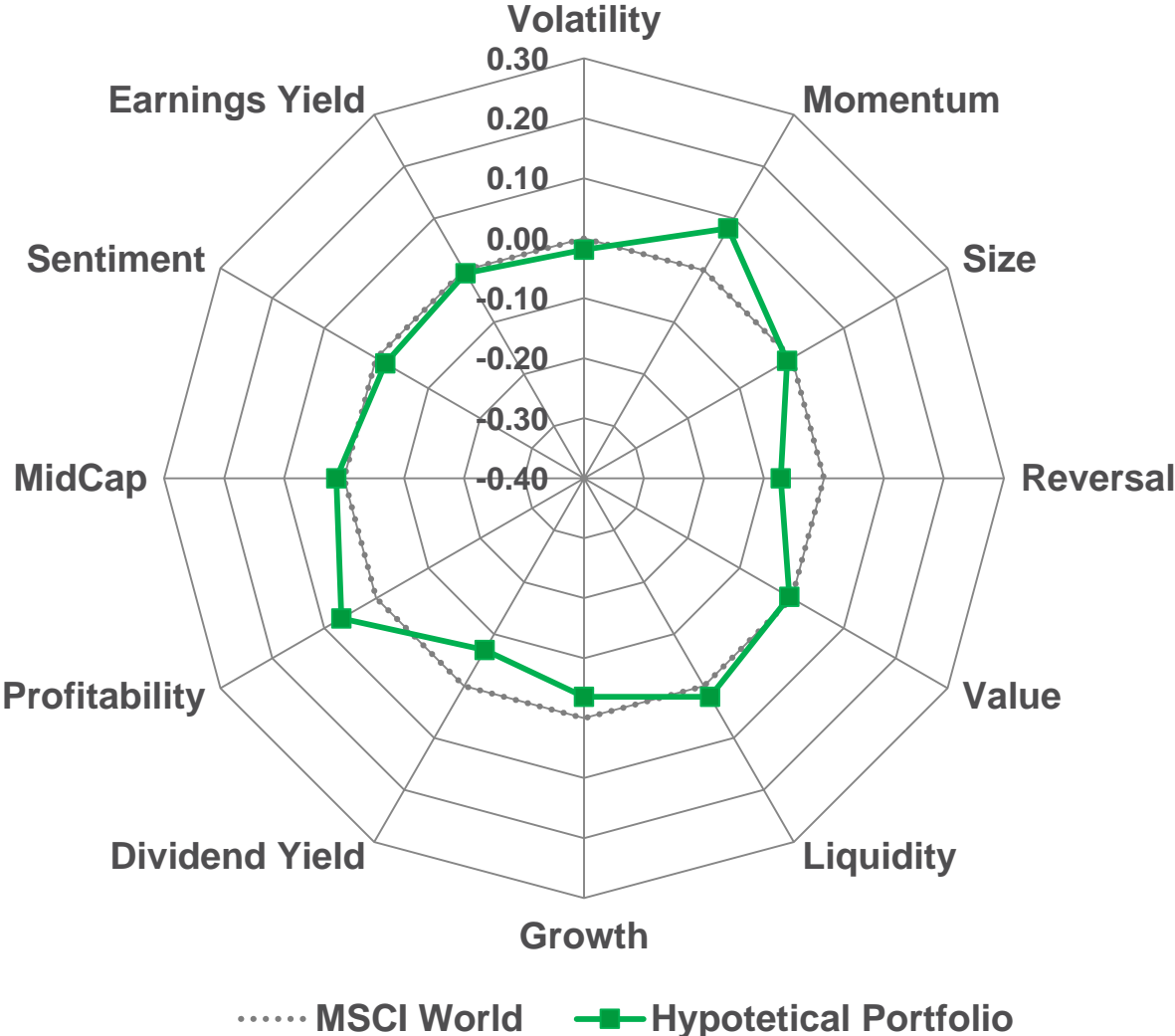
Reliance upon information in this material is at the sole discretion of the reader. Statements concerning financial market trends are based on current market conditions, which will fluctuate. Outlook is subject to change without notice. There is no guarantee that any forecasts made will come to pass.

US Min Vol is represented by MSCI USA Minimum Volatility Index, US Value by MSCI USA Enhanced Value Index, US Quality by MSCI USA Quality Sector Neutral Index, US Momentum by MSCI USA Momentum Index and US Size by MSCI USA Size Index

Case study I: Seeking the Right Factor Mix

Step 1: Diagnosis

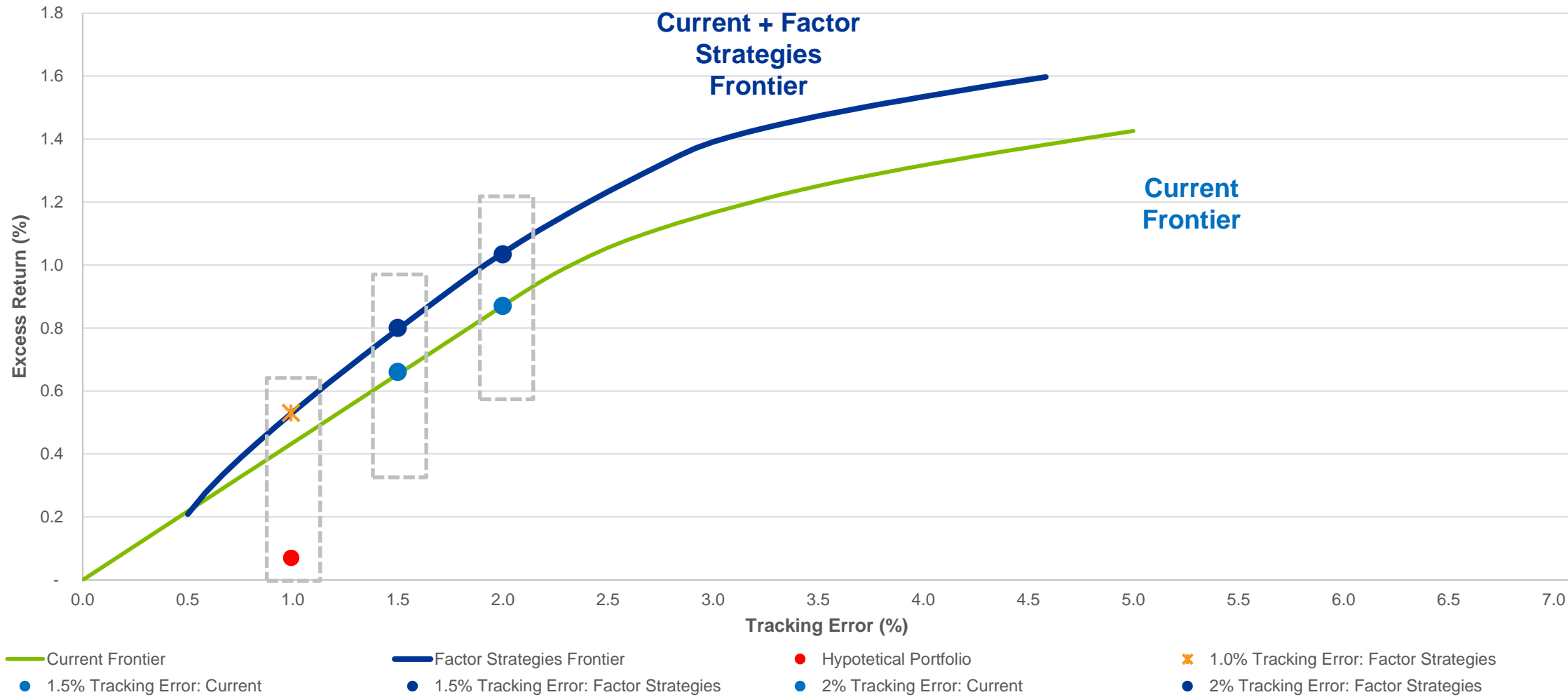
Is your factor exposure the intended one?



Source: BlackRock, Morningstar. Time horizon: July 2011 - August, 2016. For illustrative purposes only.

Case study I: Seeking the Right Factor Mix

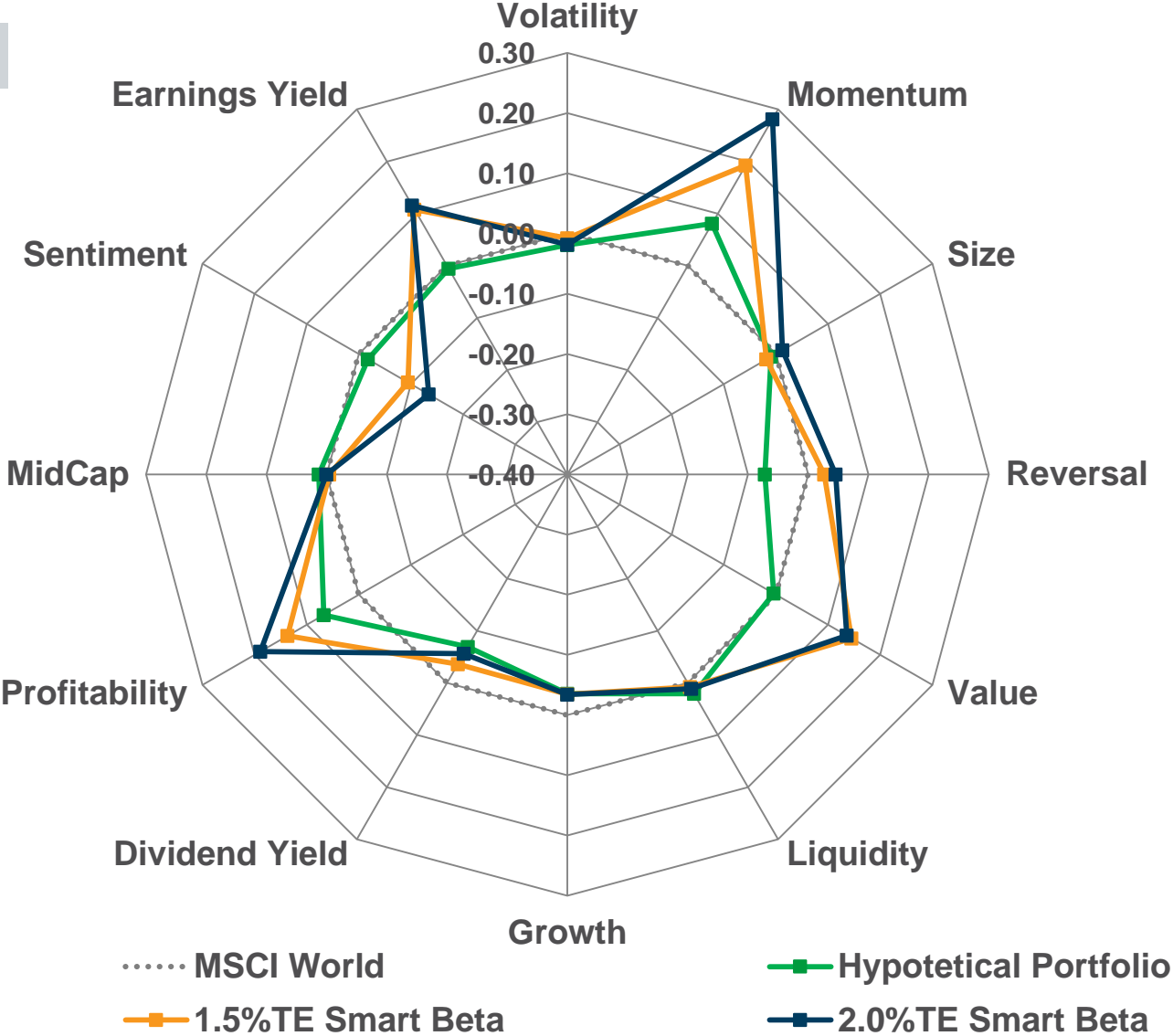
Step 2: Determine



Source: BlackRock, Morningstar. Time horizon: July 2011 - August 2016

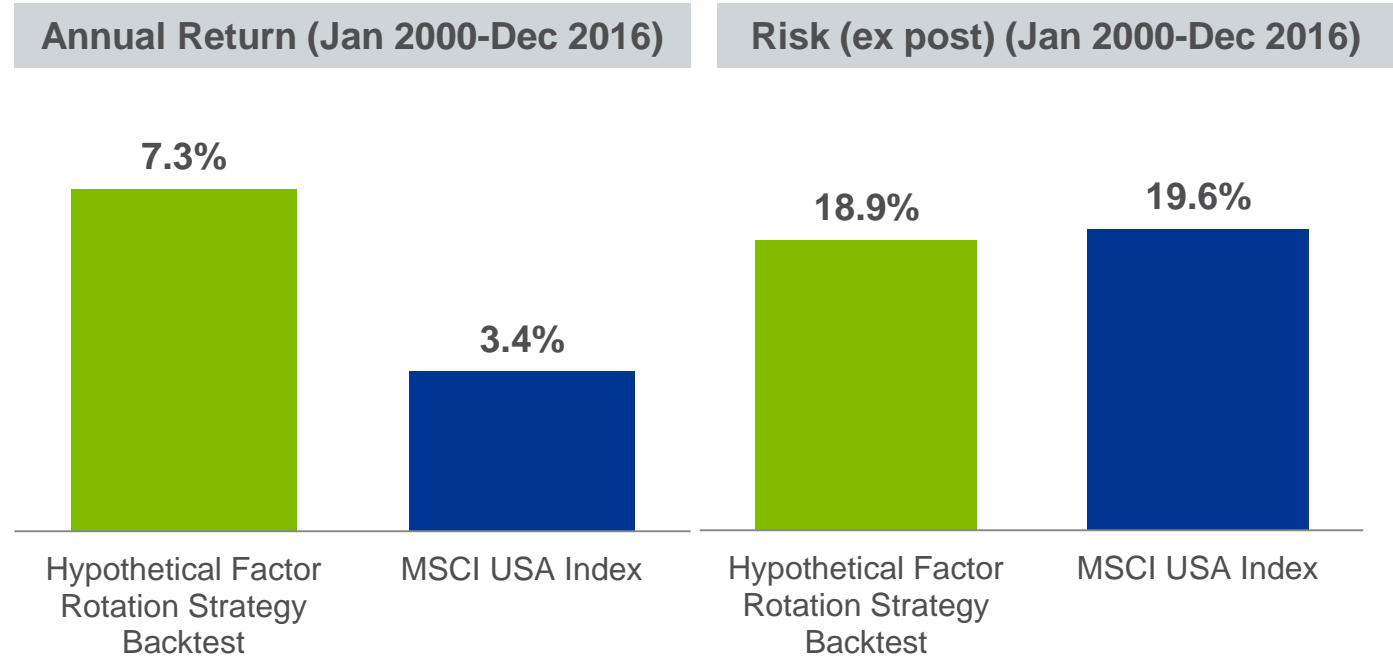
Case study I: Seeking the Right Factor Mix

Design



Source: BlackRock, Morningstar. Time horizon: July 2011-August, 2016. For illustrative purposes only.

Case II: Translating factor views into an investable model portfolio



Source: BlackRock and MSCI. Data as of 30/12/16.

The hypothetical backtested factor rotation strategy combines backtested index returns of the indices listed on slide 3. Index returns are for illustrative purposes. Index performance returns do not reflect management fees, transactions costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. This analysis contains back-tested index data. Performance is shown gross of fees. If fees were included, performance would be lower. Past performance is not indicative of future results. The value of an investment can fall as well as rise and you may not get back the original amount invested. There is a risk that the entire amount invested may be lost. Past performance is not a reliable indicator of future results. BlackRock makes no representations or warranties as to the accuracy or completeness of any past, estimated or simulated performance results contained herein, and further nothing contained herein shall be relied upon as a promise by, or representation by BlackRock whether as to past or future performance results.

Source BlackRock as of 30/12/2016. For illustrative purposes only.

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