Asset Allocation in Europe: What challenges and opportunities lie ahead?

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BlackRock

Table of Contents

BlackRock's commitment to retirement

"Longevity is the defining challenge of our age. We need to make sure it's a blessing, not a curse."
- Larry Fink, CEO, BlackRock

70+
offices in
30 countries

$5.98T[1]
assets under
management

2/3
of assets related
to retirement

BlackRock understands that our firm has a special responsibility to assist people all over the world live out their later years in dignity and security

1 Source: BlackRock; data as of September 30, 2017.

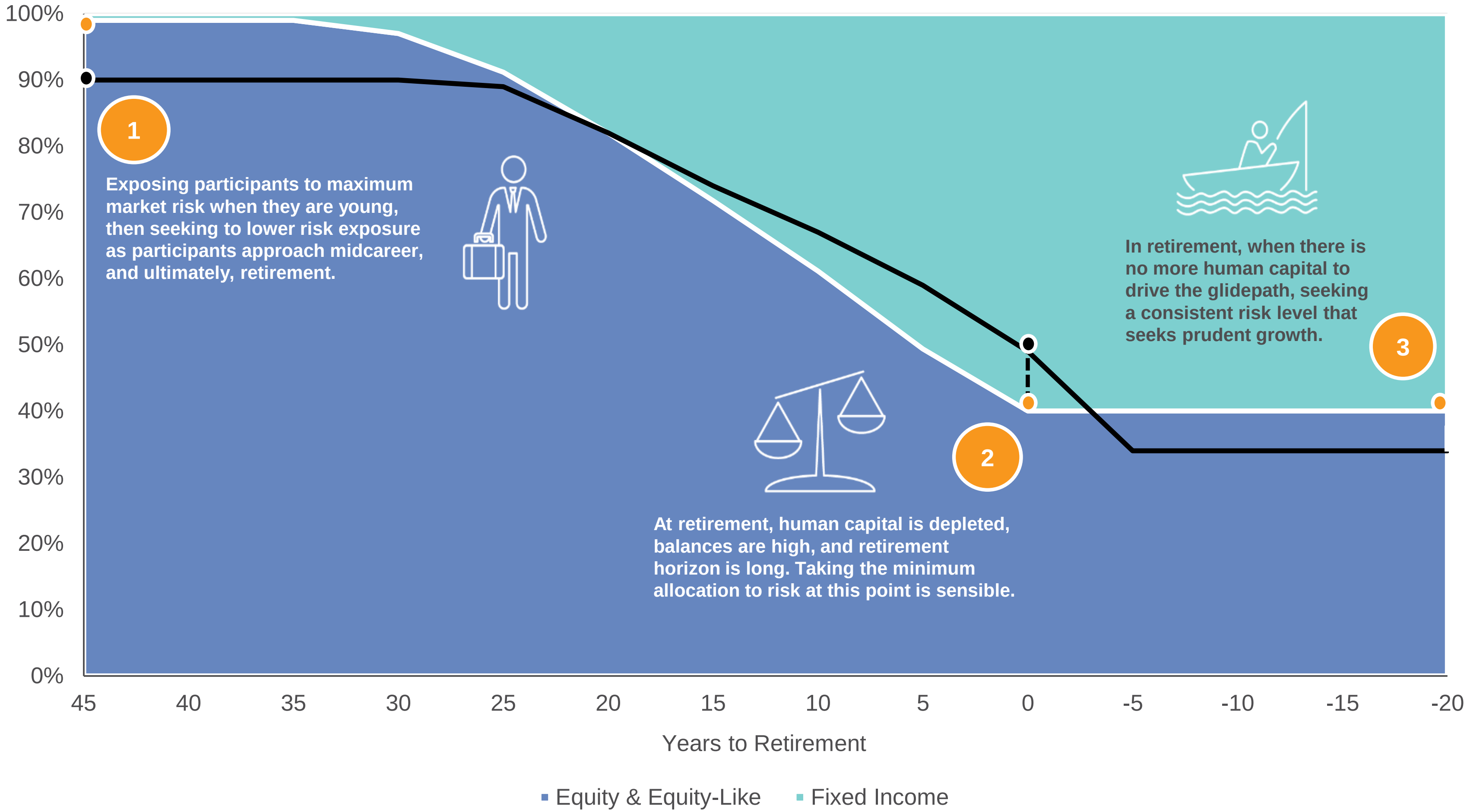
Lifecycle investing

Lifestyle	Target-date
In the UK, most defaults are a lifestyle arrangement where the age of the member determines the % weight of higher / lower risk funds	Default options, popularised in the US
Switching is done on a mechanistic basis, via a pension administrator	Date of retirement determines the asset allocation through time
The approach of choice for consultants, and majority of DC schemes	In the UK, take up limited to a few master trusts, although interest growing across the corporate pension market
Record keepers will also typically adopt this approach	“Do it for me” approach, where glidepath de-risking and asset allocation are executed by the asset manager
Allows flexibility across building blocks, providing scope for multiple asset classes, strategies and managers	

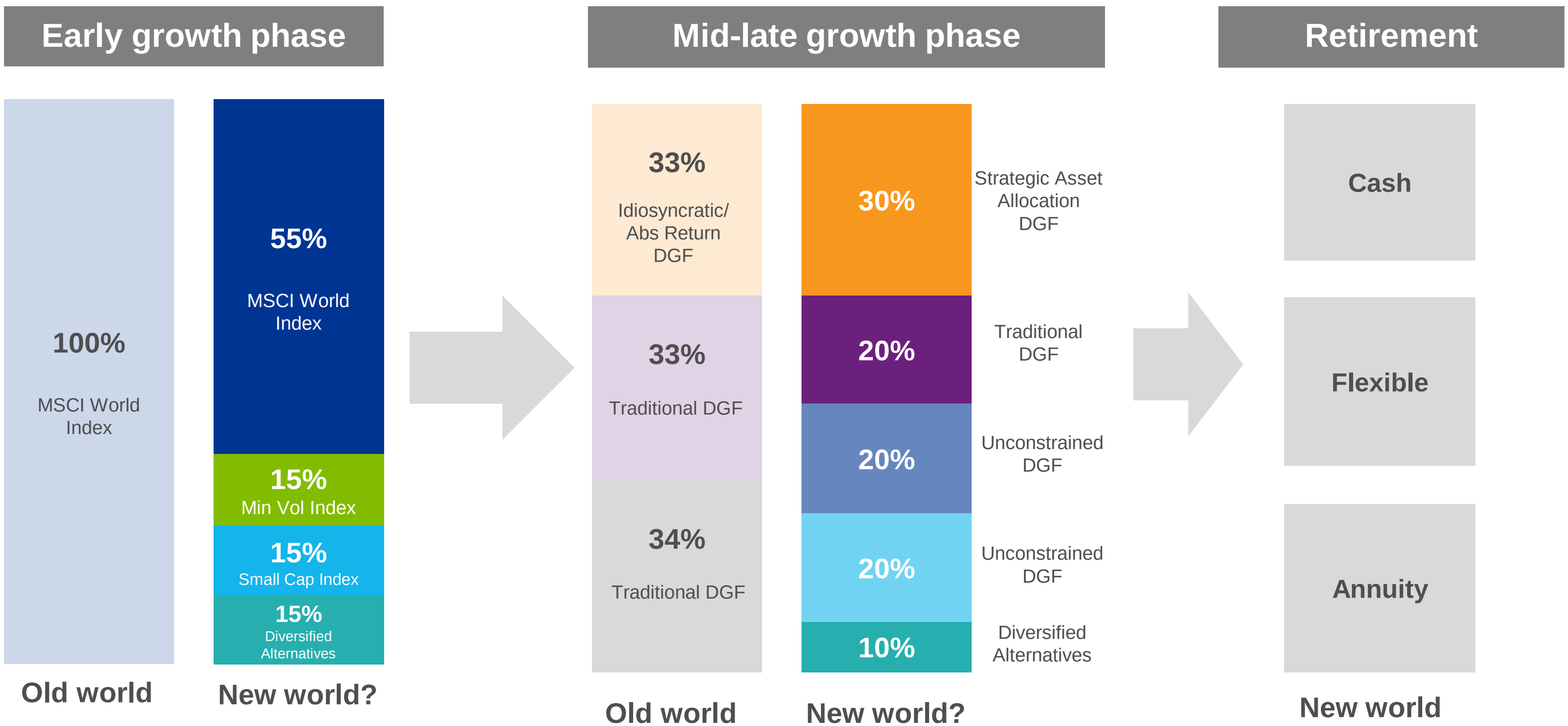
Source: BlackRock, for illustrative purposes only.

Lifestyling: Taking risk when prudent

<u>When</u> you take risk is almost as important, if not more, than <u>how much</u> risk you take



Accumulation strategies are evolving



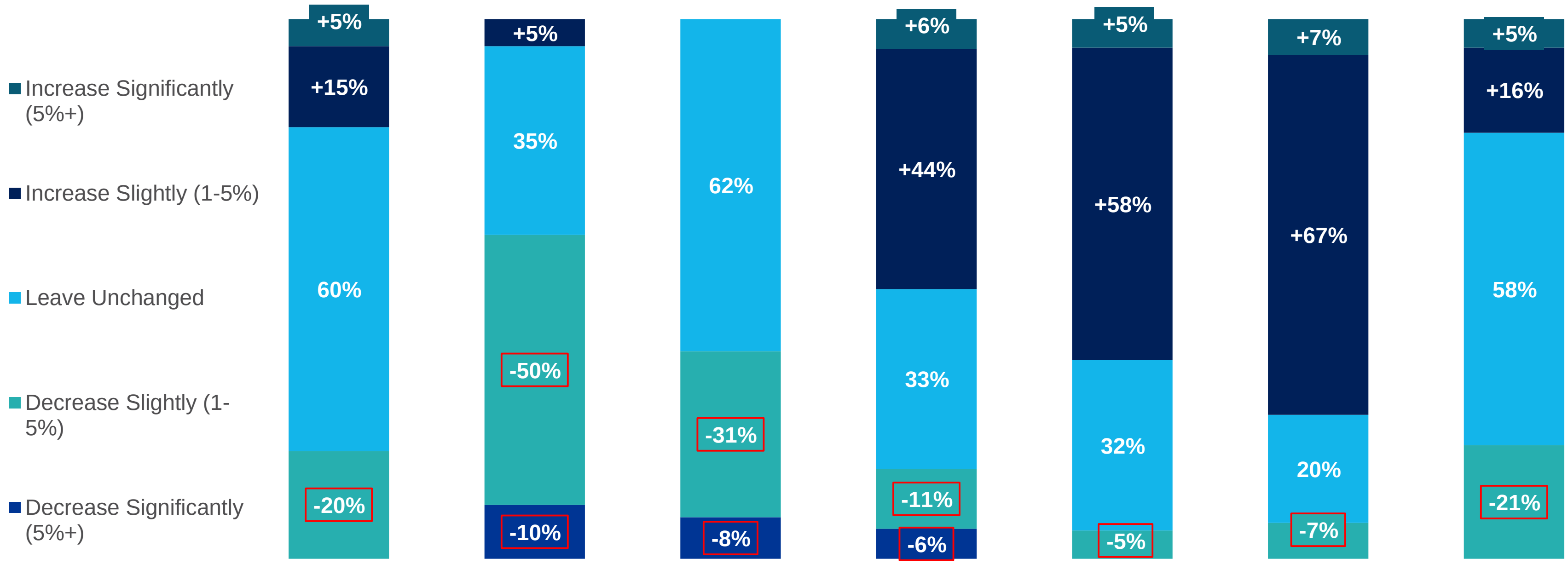
Source: BlackRock, as at 30 June 2017. Illustrative purposes only. Note: The return of your investment may increase or decrease as a result of currency fluctuations.

At the start of this year, continental European corporate pensions planned to increase allocations to illiquid assets (real assets, real estate) and rotate out of fixed income and hedge funds

20 EMEA corporate pension clients (representing assets of about $595 billion) responded to our survey and were asked:
In 2017, how do you anticipate changing your allocations to the following?

Anticipated 2017 Asset Allocation Changes (% selected)
Note: small base size, may not be representative of entire client segment

Net Change	Equities	Fixed Income	Hedge funds	Private Equity	Real Estate	Real Assets	Cash
	0%	-55%	-38%	+33%	+58%	+67%	0%



Base sizes vary: CE CORPORATE PENSION (20); Equities (20), Fixed Income (20), Hedge Funds (13), Private equity (18), Real Estate (19), Real Assets (15), Cash (19)

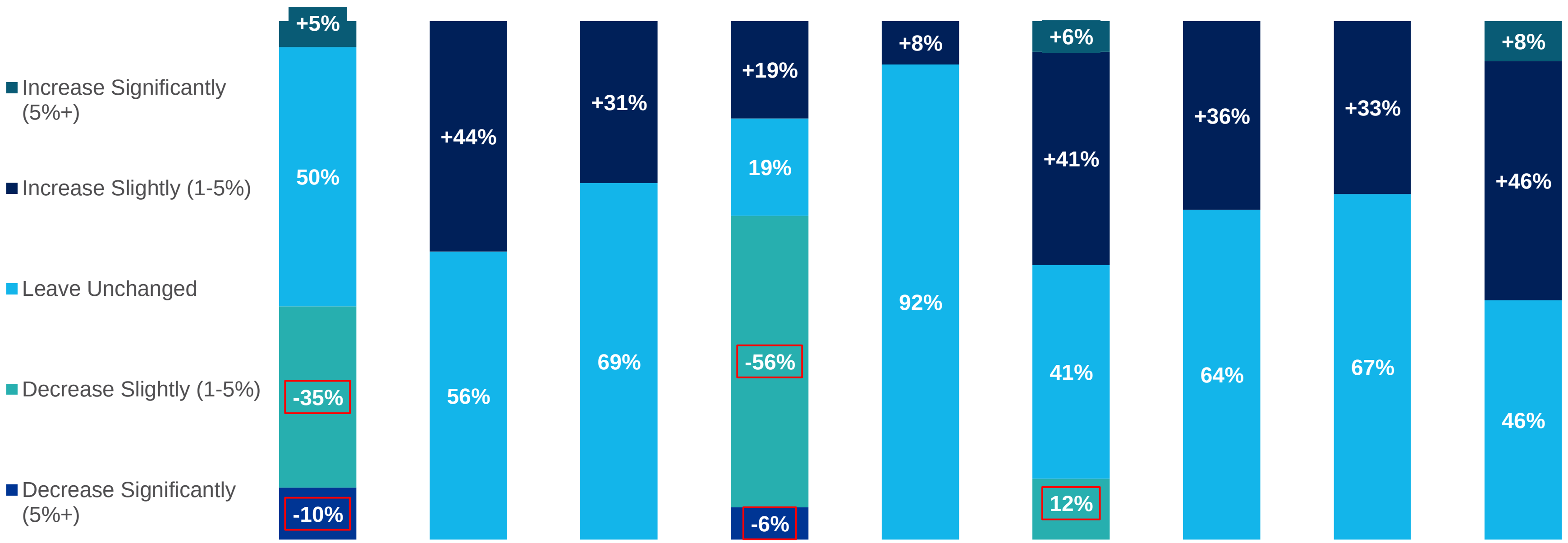
As of December 2016/January 2017. For illustrative purposes only. The figures/net change represented in percentages is illustrative in nature and do not express a forecast. This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise of future performance. No analysis of their suitability was conducted and no statement of opinion in relation to their suitability is provided.

Within fixed income, our Continental European corporate pensions clients intended to shift into private credit, emerging market debt and unconstrained and out of core / core plus and long duration strategies

20 EMEA corporate pension clients (representing assets of about $595 billion) responded to our survey and were asked:
Specific to your FI portfolio, how do you anticipate changing your allocations next year?

Anticipated 2017 Fixed Income Strategy Allocation Changes (% selected)
Note: small base size, may not be representative of entire client segment

Net Change	Core/ Core Plus -40%	Emerging Market +44%	High Yield +31%	Long Duration -44%	Securitized Assets +8%	Short Duration +35%	Unconstrained +36%	US Bank Loans +33%	Private Credit +54%



Base sizes vary: CE CORPORATE PENSION (20) Core/Core plus (20); Emerging Markets (18); High Yield (16); Long Duration (16); Securitized Assets (12); Short Duration (17); Unconstrained (11); US Bank Loans (12), Private Credit (13)

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Key notes about survey methodology

Important notes about the survey:

- We asked clients where they are likely to increase and decrease their allocations, but not **how they would reallocate from one asset class to another.**
- Specifically, we asked 240 Institutional clients how likely they are to increase (significantly or slightly), decrease (significantly or slightly), or leave their holdings unchanged in 2017 across seven different asset classes and nine areas within their fixed income portfolios.
- If a client didn't have exposure to a particular holding, they were excluded from the question.
- For some regions and specific client groups, we did not achieve enough responses to show the data on its own as the sample size is too small and not statistically reliable. The results, however, have been included in the global summary.
- Survey results for 2016 vs. 2017 can be provided upon request.

Important Information

Clients were surveyed over a three-week period from 16 November 2016.

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