

BLACKROCK GLOBAL ETP LANDSCAPE

JULY 2015

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Summary

BlackRock ETP Research

A cross-regional team analyzing global markets to deliver insights on the intersection of investment trends and ETP flows

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GLOBAL ETP FLOWS ACCELERATE AS GREECE AND CHINA CONCERNS EASE

- ▶ July global ETP flows of \$36.3bn were the best in five months, with investors initially favoring safer fund categories before shifting attention to non-U.S. developed markets equity later in the month
- ▶ U.S. large cap equity and U.S. Treasuries gathered \$9.2bn and \$3.7bn, respectively, concentrated in the first two weeks given uncertainty surrounding the referendum in Greece and stock market correction in China
- ▶ As tensions abated, a greater share of flows moved to non-U.S. developed markets equity, with pan-European exposures reaching \$6.6bn, Japan \$6.5bn and EAFE \$2.2bn
- ▶ Currency-hedged equity flows remained steady, with \$3.5bn driven by Europe exposures as the U.S. dollar again showed signs of strengthening
- ▶ Demand for investment grade and high yield corporate bonds rebounded, with each bringing in over \$1bn

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Global ETP Highlights

Global ETP flows accelerated to \$36.3bn in July. It was the second best month of the year, with strong contributions across U.S. equities, non-U.S. developed markets equities and fixed income.

Highlighting the trend of steadily increasing ETP adoption, it was the third straight July with flows over \$30bn despite lower trading volumes typical during the summer.

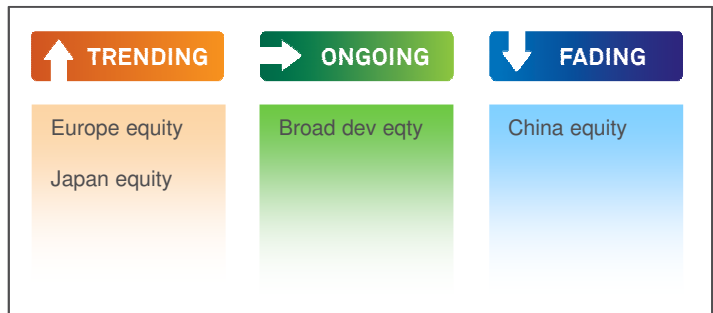
The month began with uncertainty over the referendum in Greece and stock market correction in China. This led investors to favor safer equity and fixed income exposures.

U.S. large cap and **U.S. Treasuries** brought in \$9.2bn and \$3.7bn, respectively, though both slowed considerably toward the end of July as market tensions eased and U.S. earnings season got off to a weaker-than-expected start.

Focus shifted back to non-U.S. developed markets equities and corporate bonds. **Japan, pan-European** and **EAFE** equity exposures all posted strong results. Pan-European flows were particularly robust, rising for the second month to \$6.6bn. As Greece fears eased, attention shifted to what has so far been a good earnings season relative to the U.S.

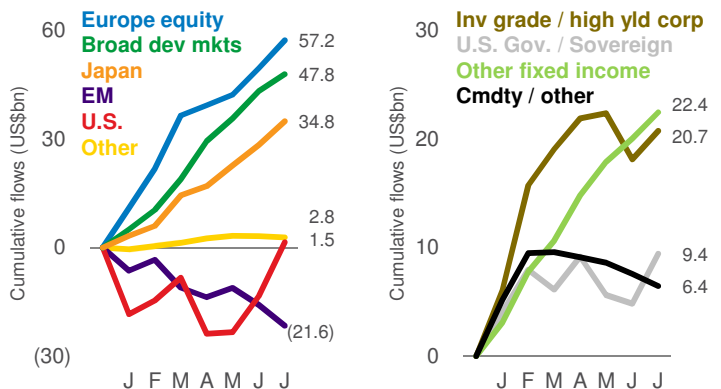
Currency-hedged and **smart beta** equity, the two fastest growing ETP segments, remained steady with flows of \$3.5bn and \$1.6bn, respectively. Smart beta (see below) is still on track to reach the record flows from last year.

KEY INVESTMENT THEMES / ETP FLOW TRENDS



GLOBAL ETP FLOWS BY ASSET CLASS & EXPOSURE¹

2015 YTD flows: \$181.6bn

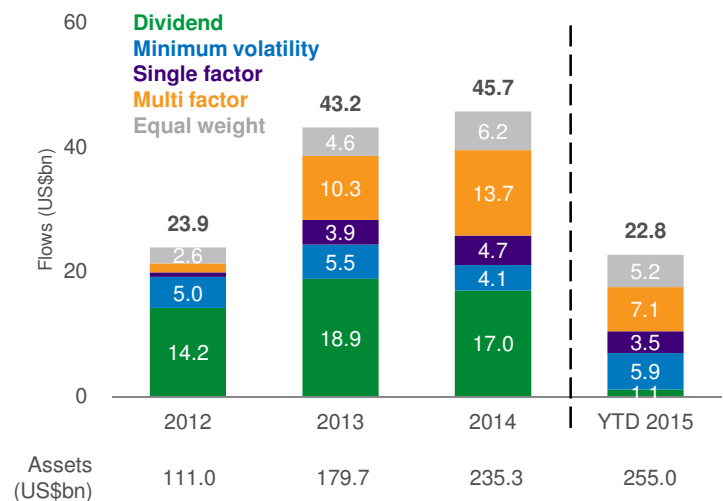


SPOTLIGHT ON SMART BETA

Global smart beta ETPs are experiencing strong flows for a third consecutive year. Assets have expanded rapidly, growing at an annualized rate of nearly 40% since the beginning of 2012. This is twice the rate for the broader ETP industry. A few notable trends:

- 1) Despite a slowdown for dividend strategies so far this year, flows of \$21.7bn for other categories such as minimum volatility and factor funds have accelerated
- 2) Europe is growing faster than any other region, with assets of \$20bn up 50% per year since 2012 and year-to-date flows approaching \$3bn
- 3) Fixed income smart beta funds are gaining traction, and while assets and flows are still small, a dozen funds have been launched including the first in Europe

GLOBAL SMART BETA ETP FLOWS



Global ETP Highlights (cont'd)

The currency-hedged flows were driven by Europe exposures, which accumulated \$2.1bn amid renewed U.S. dollar appreciation. The dollar reached a three-month high versus the euro during the month.

Broad EM equities slowed for the third straight month with redemptions totaling (\$2.7bn). However, there has not been a catalyst behind the selling and year-to-date flows are unchanged from March levels. The category has stayed in a tight range all year with the recent outflows offsetting asset gathering in the second quarter.

China equity flows were volatile during July. A-shares funds listed in China accumulated \$8.0bn in the first week despite the sharp market drop. These flows later reversed, resulting in outflows of (\$2.0bn).

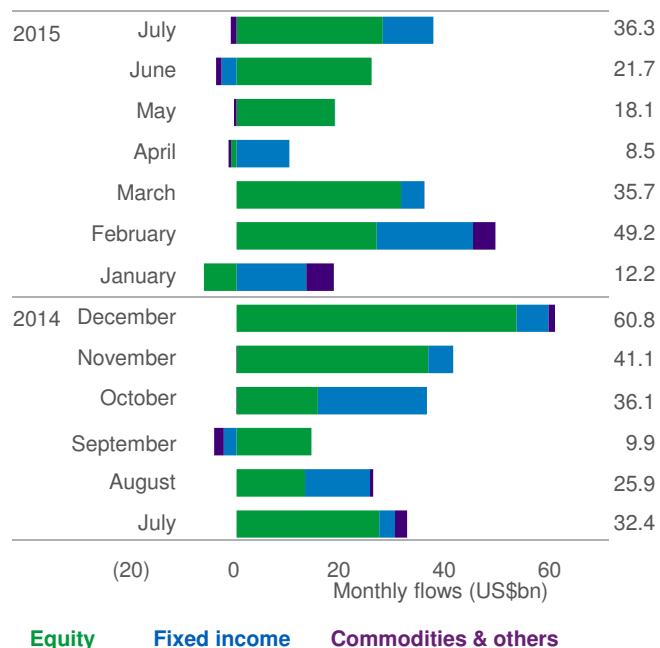
Conversely, both A-shares and H-shares funds listed in the U.S. began to sell off later in the month. They shed (\$0.7bn) after posting steady inflows of \$2.4bn during the first half of the year. The CSI 300 fell 14.8% in July, while the Hang Seng index in Hong Kong was down only 6.2%.²

Fixed income flows rebounded to \$9.6bn following the first outflows of the year in June. As asset gathering for U.S. Treasuries subsided mid-month, corporate bond flows began to accelerate again. **Investment grade corporate bond** funds brought in \$1.6bn and **high yield corporate bonds** added \$1.0bn.

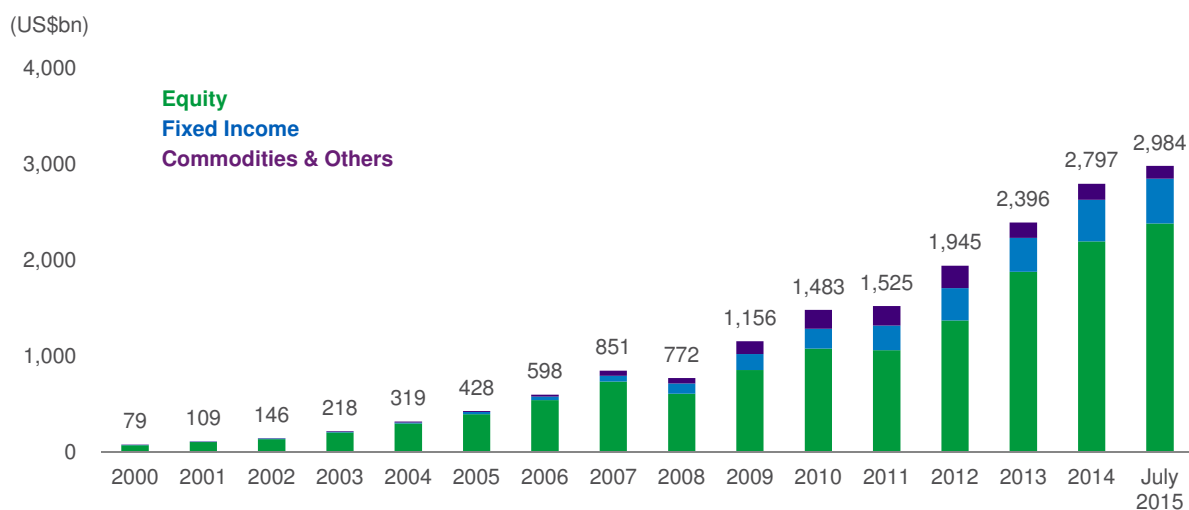
Commodities were mixed with outflows totaling (\$0.9bn). Both oil and gold prices dropped, but **crude oil** ETPs saw inflows of \$2.1bn while **gold** redemptions were (\$2.3bn).

RESULTS AT A GLANCE¹

| (US\$bn) | July 2015 | Dec 2014 | July 2014 |
|---------------------------|-----------|----------|-----------|
| Monthly flows | 36.3 | 60.8 | 32.4 |
| Year-to-date flows | 181.6 | 329.6 | 155.8 |
| Assets | 2,984 | 2,797 | 2,585 |
| # of ETPs | 5,688 | 5,431 | 5,217 |



GLOBAL ETP ASSETS¹



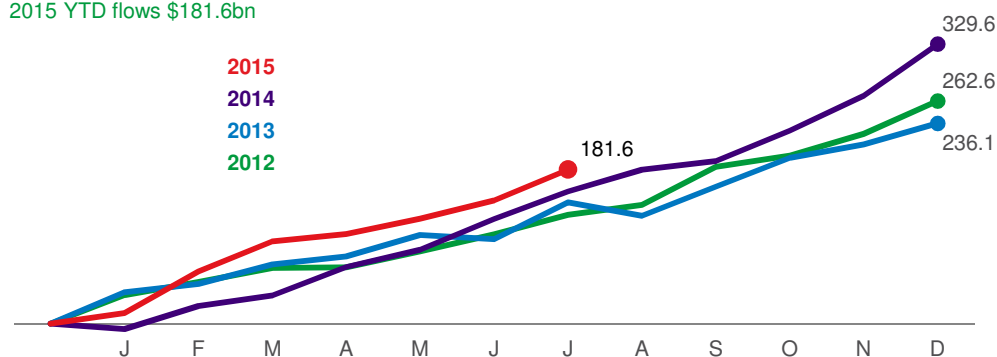
Year-to-date Overview

GLOBAL ETP FLOWS BY EXPOSURE¹

| (US\$bn) | | YTD 2015 | YTD 2014 | Annual 2014 |
|----------------------|----------------------------|--------------|--------------|--------------|
| Equity | Developed Markets Equity | 144.2 | 103.4 | 243.9 |
| | Emerging Markets Equity | (21.6) | 6.6 | (1.8) |
| | Total | 122.6 | 110.0 | 242.1 |
| Fixed Income | Government | 9.4 | 11.3 | 19.5 |
| | Investment Grade Corporate | 14.8 | 11.0 | 22.4 |
| | High Yield Corporate | 5.9 | 1.4 | 3.8 |
| | Others | 22.4 | 19.7 | 39.1 |
| | Total | 52.6 | 43.3 | 84.9 |
| Commodities & others | Total | 6.5 | 2.4 | 2.6 |
| Grand Total | | 181.6 | 155.8 | 329.6 |

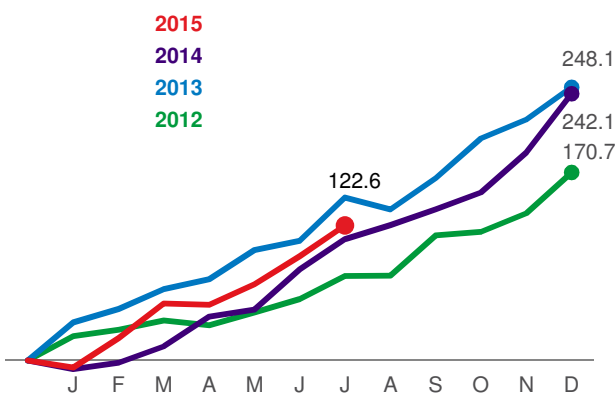
CUMULATIVE ETP FLOWS¹

2015 YTD flows \$181.6bn



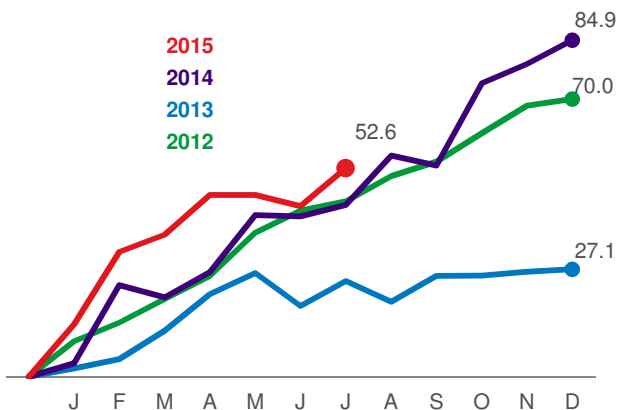
CUMULATIVE EQUITY ETP FLOWS¹

2015 YTD equity flows: \$122.6bn



CUMULATIVE FIXED INCOME ETP FLOWS¹

2015 YTD fixed income flows: \$52.6bn

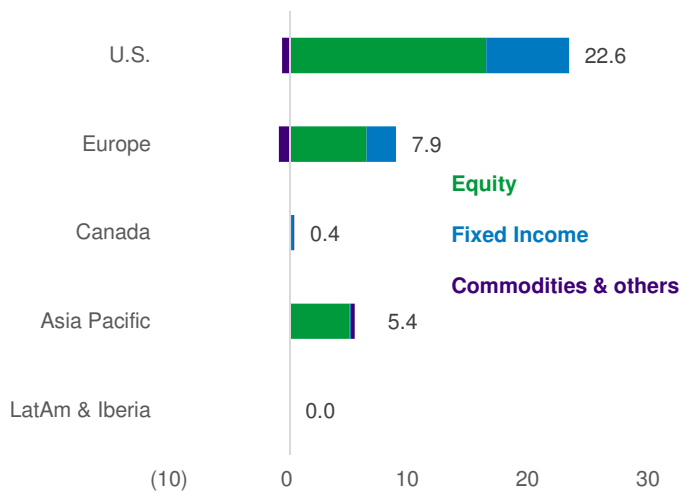


Flows By Listing Region

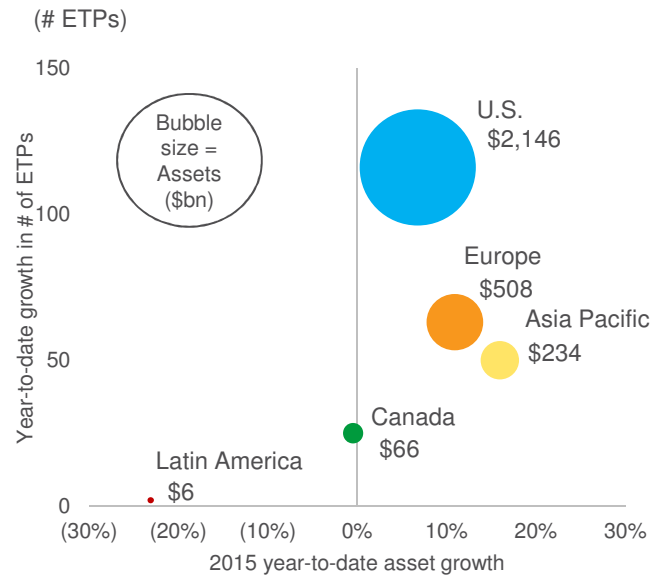
Highlights (US\$):¹

- ▶ U.S.-listed funds led July flows with \$22.6bn including a five-month high for fixed income
- ▶ Europe-listed ETP flows rebounded to \$7.9bn, the highest level since February, following a slowdown in Q2
- ▶ Canada-listed ETPs gathered \$0.4bn to extend their streak of consecutive inflows to 18 months
- ▶ Asia Pacific-listed flows of \$5.4bn were the highest since December, despite a pullback during the second half of the month for Japan and China equity exposures

MONTH-TO-DATE FLOWS BY LISTING REGION¹



ASSET GROWTH RATES AND # OF ETPs¹



LISTING REGION VIEW¹

| (US\$bn) | MTD Flows | YTD 2015 Flows | Share of YTD Flows | Current Assets | Share of Assets |
|-------------------------|---------------|----------------|--------------------|----------------|-----------------|
| US | 22.6 | 119.4 | 65.7% | 2,145.5 | 71.9% |
| Europe | 7.9 | 48.7 | 26.8% | 507.8 | 17.0% |
| Canada | 0.4 | 6.9 | 3.8% | 66.2 | 2.2% |
| Asia Pacific | 5.4 | 7.5 | 4.1% | 233.9 | 7.8% |
| Latin America & Iberia | 0.0 | (1.0) | (0.6%) | 6.0 | 0.2% |
| Middle East and Africa | Not available | Not available | NA | 24.8 | 0.8% |
| Global ETP Total | 36.3 | 181.6 | 100.0% | 2,984.1 | 100.0% |

ETP Flows by Exposure

| (US\$bn) | | MTD Flows | YTD Flows | Current Assets |
|--------------------|-------------------------|-----------------------|--------------|----------------|
| Equity | US | 14.9 | 1.5 | 1,316.6 |
| | Broad Developed Markets | 4.7 | 47.8 | 299.9 |
| | Europe | 7.7 | 57.2 | 264.3 |
| | Asia-Pacific | 6.7 | 38.7 | 233.7 |
| | Canada | (0.4) | (1.0) | 27.1 |
| | Developed Equity | 33.5 | 144.2 | 2,141.6 |
| | Single Country | (2.9) | (18.4) | 131.2 |
| | Broad | (2.7) | (3.2) | 104.7 |
| | Regional | (0.1) | 0.0 | 5.8 |
| | Emerging Markets Equity | (5.7) | (21.6) | 241.7 |
| | Equity Total | 27.8 | 122.6 | 2,383.3 |
| | Fixed Income | Investment Grade Corp | 1.6 | 14.8 |
| Broad | | 0.6 | 7.5 | 71.1 |
| U.S. Government | | 3.6 | 5.1 | 49.7 |
| HY Corp | | 1.0 | 5.9 | 49.7 |
| Sovereign | | 1.0 | 4.3 | 45.8 |
| Municipal | | 0.2 | 2.3 | 17.4 |
| Other Fixed Income | | 1.6 | 12.6 | 125.1 |
| Fixed Income Total | | 9.6 | 52.6 | 468.8 |
| Commodities | Gold | (2.3) | (1.7) | 54.1 |
| | Energy | 1.9 | 7.3 | 13.0 |
| | Silver | 0.0 | 0.1 | 8.3 |
| | Agriculture | (0.1) | 0.0 | 3.7 |
| | Other Precious Metals | 0.0 | (0.2) | 21.5 |
| | Other Commodities | (0.5) | (0.6) | 13.1 |
| | Commodities Total | (0.9) | 5.0 | 113.7 |
| Asset Allocation | 0.1 | 0.8 | 6.9 | |
| Alternatives | (0.4) | 0.4 | 6.3 | |
| Currency | 0.0 | 0.3 | 5.1 | |
| Grand Total | | 36.3 | 181.6 | 2,984.1 |

Endnotes

The ETP (or exchange traded product) category encompasses any portfolio exposure security that trades intra-day on an exchange. The data for this report are captured from a number of sources by BlackRock including provider websites, fund prospectuses, provider press releases, provider surveys, Bloomberg, the National Stock Exchange, Strategic Insight Simfund, Wind, and the Bank of Israel. All amounts are reported in US dollars. Flows are derived using daily net asset values and shares outstanding using the most recent data we can capture at month-end. For products with cross-listings, we attribute net flows and assets to the primary listings. For Middle East and Africa, net flows data is not available. Assets are derived using shares outstanding and prices at the end of each month (or the closest date available). Where price is not available, we use an approximation. For ETPs listed in Israel, product level detail is not available. Product level information is aggregated by provider, asset class, exposure, region listed and replication method to produce the various analyses in the report.

1. Data is as of July 30, 2015 for Europe and July 31, 2015 for the US, Canada, Latin America, Israel, and some Asia ETPs. Some Asia ETP data is as of June 30, 2015. Global ETP flows and assets are sourced using shares outstanding and net asset values from Bloomberg for the US, Canada, Europe, Latin America and some ETPs in Asia. Middle East ETP assets are sourced from the Bank of Israel. ETP flows and assets in China are sourced from Wind. Inflows for years prior to 2010 are sourced from Strategic Insights Simfund. Asset classifications are assigned by the BlackRock based on product definitions from provider websites and product prospectuses. Other static product information is obtained from provider websites, product prospectuses, provider press releases, and provider surveys. Market returns are sourced from Bloomberg.
2. Source: Bloomberg SHSZ300:IND and HSI:IND (\$US)

Index returns are for illustrative purposes only. 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.

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