ETP LANDSCAPE

15TH ANNIVERSARY OF ETFs IN EUROPE | APRIL 2015

BLACKROCK®

The opinions expressed are as of April 9th, 2015
and may change as subsequent conditions vary.

What’s Inside

BlackRock ETP Research

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

For inquiries, please email
ETPresearch@BlackRock.com

CELEBRATING 15 YEARS OF ETFs IN EUROPE

On the 15th anniversary of the launch of the first ETFs domiciled in Europe, we expect ETP assets in the region to reach US$1 trillion by 2019.

Five trends we believe will dominate the European ETP industry for the next five years include:

- Core exposures will continue to lead the growth and popularity
- Fixed income will become the next engine of growth
- Smart Beta products will see significant expansion
- Investor participation is expected to accelerate
- New territories and new usage will gain traction, as ETFs become increasingly cost-efficient versus futures and other financial instruments

Subscribe

If you are a Professional Investor and would like to receive future ETP Landscape reports, please subscribe via our website at: www.blackrockinternational.com/etflsubscribe

History, Momentum and Beyond

The first ETFs domiciled in Europe were launched 15 years ago this month, with two European equity ETFs listing on the Deutsche Börse on 11 April 2000, and a UK equities ETF listing on the London Stock Exchange on 28 April 2000.

To mark this anniversary, we offer a prediction for the next major milestones for the European ETF market, and set out five trends we believe will dominate the European ETP industry over the next five years.

ETP assets to surpass US$500 billion this year, and US$1 trillion by 2019[1]

With the total assets standing at $494bn at the end of March and average monthly inflows of $7bn over the past 12 months across the European industry, we are confident that European ETPs will surpass US$500 billion mark later this year.

The healthy growth is supported by three main catalysts:
- the adoption of ETFs by new client segments and by existing clients for new portfolio usages;
- the growth passive investing is enjoying globally
- and a more positive investor sentiment in the region.

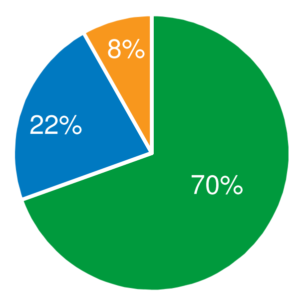
Furthermore, based on the structural, long-term tailwinds supporting ETFs over the next 5 years, we believe the assets held by European-domiciled ETPs will surpass $1 trillion before the industry turns 20. Indeed the industry is likely to reach $1.1 trillion by 2019[6].

First ETFs launched in Europe

Equity	Fixed Income	Commodity & Others
April 2000 iShares STOXX Europe 50 UCITS ETF[2] and iShares EURO STOXX 50 UCITS ETF (Dist)[3] listed on the Deutsche Börse iShares FTSE 100 UCITS ETF (Dist)[4] listed on the London Stock Exchange	**February 2003** iShares eb.rexx Government Germany UCITS ETF (DE)[5] listed on the Deutsche Börse	**March 2004** First commodity ETP listed on the London Stock Exchange **2008 (Various)** First currency, alternative and asset allocation products launched

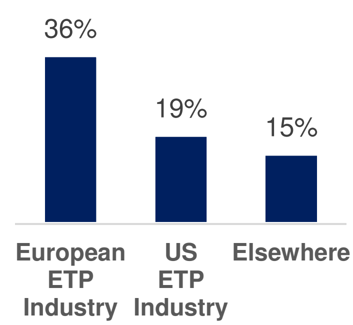
European ETP Industry AUM[1]

Mar 2015 AUM: $494bn

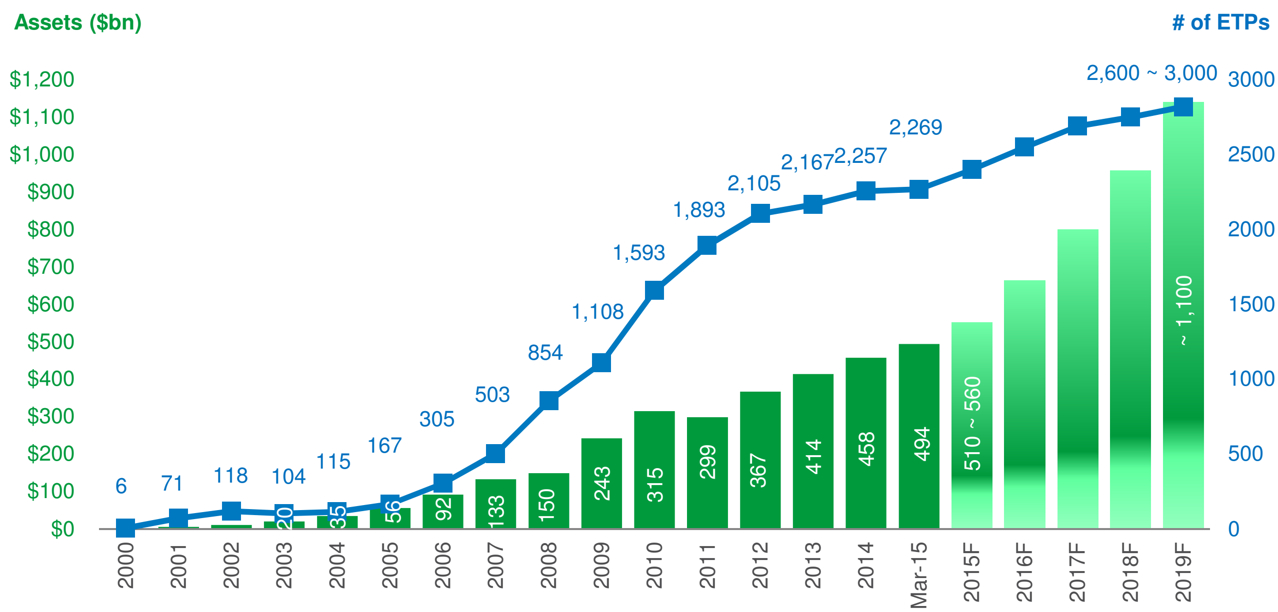


Annualized Growth Rate (%)[1]

Q1 2015



Europe-listed ETP Assets & Number of ETPs by Year – History & Forecasts[1,6]



Core, Fixed Income and Smart Beta

1. Core exposures continue to lead the growth and popularity

The expansion of ETPs into alternative asset classes as well as niche equity and fixed income exposures is providing unprecedented precision tools to investors.

That said, we believe that broad-market indices will continue to attract the majority of inflows within the ETP spectrum. With greater liquidity and transparent intra-day pricing, the majority of broad-market equity ETFs - and mainstream fixed income ETFs too - will increasingly become some of the most efficient tools available to investors.

Furthermore, these core, traditional market-weighted exposures are seeing a multi-year decline in pricing. This is bringing ETFs into new territories and enabling competitions against other beta instruments, such as index mutual funds and futures.

2. Fixed income to become the next engine of growth

Fixed income ETFs were first listed in Europe in 2003. In just over 12 years they have amassed over $100bn in assets, and they now account for more than 20% of all European ETP assets. More than $40bn has entered Europe-listed bond ETPs in the past 15 months – a stellar result given the low interest rate environment and dovish monetary policy.

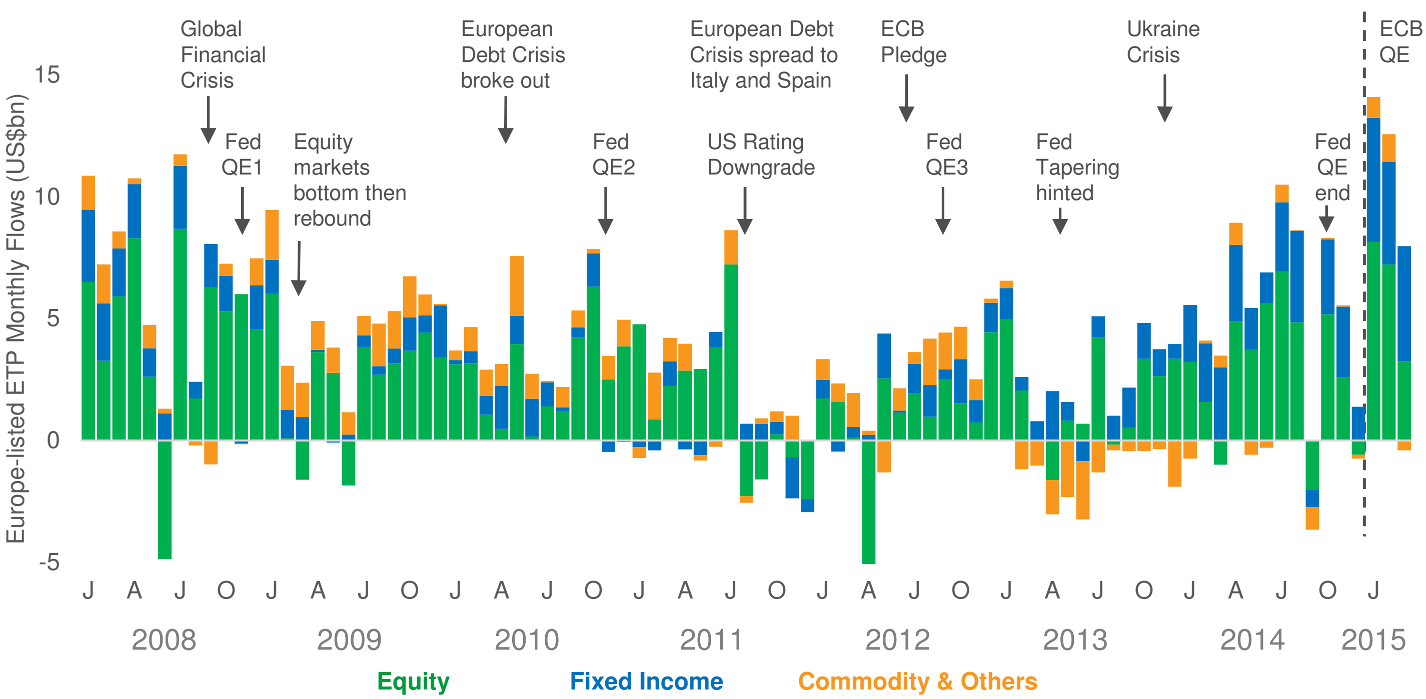
We expect this momentum to continue as traditional over-the-counter (OTC) fixed income investors become better acquainted with the benefits of exchange traded instruments. This will lead ETP assets in this asset class to grow 20%-25% per year on average – a rate already achieved in 2014.

3. Smart Beta to see significant expansion

Smart beta, or alternatively-weighted beta strategies, have captured attentions globally in recent years. When packaged in ETPs, they can provide the transparency, diversification and low fees of index investing, as well as access to potential incremental returns or reduced risk.

We expect to see more smart beta ETPs created in the next five years. This next generation may include expanded breadth based on equity strategies as well as fixed income, alternatives and multi-asset exposures.

MARKET/POLICY-DRIVEN EVENTS AND THE IMPACTS ON EUROPE-LISTED ETP FLOWS[1,9,10]



Investor Participation and New Territories

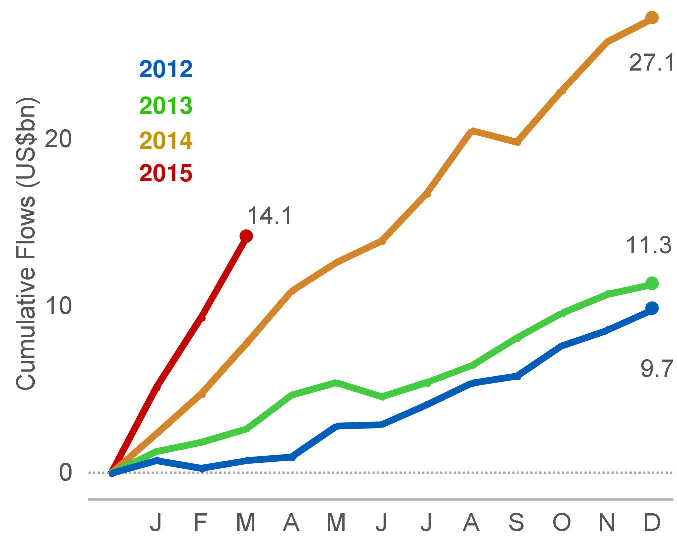
4. Investor participation to accelerate

Over the past years, more and more investors have turned to ETFs when building their portfolios. This process has also begun for European retail investors. According to a Greenwich Associates 2014 European ETF study[7], 83% of the institutional ETF users surveyed use ETFs to gain exposure to international equities. About half use ETFs to implement domestic equity exposures. A sizable share of the surveyed institutions plans to further increase the share of equity assets invested in ETFs, as well as further adoption of fixed income ETFs.

Recent regulatory changes – such as the Retail Distribution Review (RDR) in the UK and the equivalent rules in the Netherlands – are helping to level the playing ground for ETFs and mutual funds by banning advisor retrocessions, therefore boosting retail inflows into ETFs.

Europe Listed Fixed Income ETP Cumulative Flows[1]

2015 YTD Fixed Income Flows: $14.1bn



5. New territories in sight, as ETFs become increasingly cost-efficient versus Futures and other financial instruments

As the ETF industry has grown and matured in recent years, ETFs have benefitted from tailwinds of greater efficiency through better liquidity and lower costs. Meanwhile other beta instruments, particularly unfunded delta-1 derivatives such as index futures and index swaps, are experiencing headwinds and challenges. Some of these are driven by supply and demand dynamics and the increased cost of capital for banks triggered by regulatory changes[8].

For certain investors and for certain exposure rolling and cash management scenarios, ETFs may offer significantly cheaper access to beta. We believe these potential savings and efficiencies versus other beta instruments will continue.

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 March 30, 2015 for Europe and March 31, 2015 for the US, Canada, Latin America, Israel, and some Asia ETPs. Some Asia ETP data is as of February 27, 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. iShares STOXX Europe 50 UCITS ETF – Bloomberg ticker EUN1 GY. This fund was originally launched on the XTF segment of Deutsche Börse as EETF The Dow Jones STOXX 50 (later EETF STOXX 50 LDRS), by EETF - a Merrill Lynch International company at the time. iShares purchased EETF in 2003.
3. iShares EURO STOXX 50 UCITS ETF (Dist) – Bloomberg ticker EUN2 GY. This fund was originally launched as EETF The Dow Jones Euro STOXX 50 (later EETF Euro STOXX 50 LDRS), by EETF. iShares purchased EETF in 2003.
4. iShares FTSE 100 UCITS ETF (Dist) – Bloomberg ticker ISF LN. This fund was originally launched on the extraMARK platform of the London Stock Exchange, by iShares.
5. iShares eb.rexx Government Germany UCITS ETF (DE) – Bloomberg ticker RXRGEX GY. This fund was originally launched as INDEXCHANGE eb.rexx Government Germany ETF at the time. Barclays Global Investors purchased INDEXCHANGE in 2006.
6. Including assumptions on market movements.
7. Greenwich Associates 2014 "ETFs: Broad Usage Increases Amongst European Institutional Investors". www.greenwich.com
8. BlackRock iShares "Beyond The Future: ETFs As Financial Instruments". www.ishares.com
9. Federal Open Market Committee (FOMC) Monetary Policy Press Releases, 2008-2015
10. European Central Bank (ECB) Governing Council Decisions – Monetary Policy Decisions, 2008 - 2015

Index returns are for illustrative purposes only and do not represent actual Fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

ABOUT BLACKROCK

BlackRock is a leader in investment management, risk management and advisory services for institutional and retail clients worldwide. At December 31, 2014, BlackRock's AUM was $4.652 trillion. BlackRock helps clients meet their goals and overcome challenges with a range of products that include separate accounts, mutual funds, iShares® (exchange traded funds), and other pooled investment vehicles. BlackRock also offers risk management, advisory and enterprise investment system services to a broad base of institutional investors through BlackRock Solutions®. Headquartered in New York City, as of December 31, 2014, the firm had approximately 12,200 employees in more than 30 countries and a major presence in key global markets, including North and South America, Europe, Asia, Australia and the Middle East and Africa. For additional information, please visit the Company's website at **www.blackrock.com**.

Disclaimer

REGULATORY INFORMATION

BlackRock Advisors (UK) Limited is authorised and regulated by the Financial Conduct Authority ('FCA'), having its registered office at 12 Throgmorton Avenue, London, EC2N 2DL, England, Tel +44 (0)20 7743 3000.

This document has been provided by BlackRock in a private and confidential manner to professional and or institutional investors (as such term is defined according to applicable regulations in the relevant jurisdiction) only upon express request.

This document is solely for informational and educational purposes only and represents an assessment of the market environment at a specific time and is not intended to be relied upon by the reader as research, a forecast of future events or a guarantee of future results.

This publication does not provide financial, investment or tax advice or information relating to the securities of any particular fund or other issuer. The information and opinions included in this publication are based on publicly available information, are subject to change and should not be relied upon for any purpose other than general information and education. This publication has been prepared without regard to the individual financial circumstances and objectives of those who receive it and the types of securities discussed in this publication may not be suitable for all investors.

The information included in this document has been taken from trade and other sources considered to be reliable. This document is published in good faith but no representation or warranty, express or implied, is made by BlackRock or by any person as to its accuracy or completeness and it should not be relied on as such. BlackRock or any of its directors, officers, employees or agents shall have no liability for any loss or damage arising out of the use or reliance on the material provided including without limitation, any loss of profit or any other damage, direct or consequential. Any opinions expressed in this document reflect our analysis at this date and are subject to change.

This is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any strategy in any jurisdiction.

This document has not been prepared, reviewed or distributed by any broker-dealer affiliate of BlackRock and should not be deemed a product of any such affiliate.

BlackRock has not performed any due diligence on products which are not managed by BlackRock and accordingly does not make any remark on their suitability for investment purposes. Past performance is not a guide to future performance . Income is not fixed and may fluctuate. Exposure to foreign currencies can be affected by exchange rate movements.

This document or any portion hereof may not be reprinted, sold or redistributed without authorisation from BlackRock Advisors (UK) or its affiliates (together, 'BlackRock').

EMEACC-0047