

Confronting Market Volatility

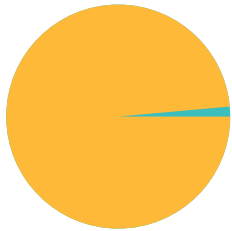
December 4, 2014

Brian Matthews, CFA
Executive Director
Head of ETF Licensing and Factor Index
Business Management
MSCI

Joseph Nelesen, PhD
Director
Head of Institutional Product
Management & Consulting
BlackRock

The Index Matters

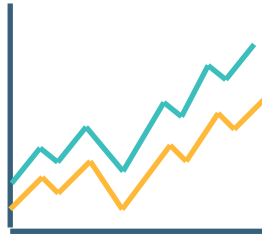
Global Industry Recognition for MSCI's Leadership



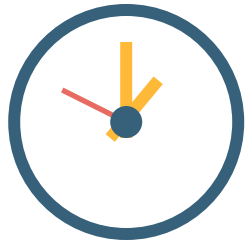
95 of top **100**
global investment
managers are
MSCI clients¹



650+
ETFs are based on MSCI
indexes,
more than on any other
index²



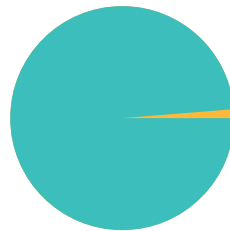
\$9.5tn
in assets is estimated to
be benchmarked to MSCI
indexes³



160,000
indexes calculated daily
9,000+
in real time



99.96%
accuracy rate⁴



95%
of US pension fund assets
invested in global equities
are benchmarked to MSCI⁵

¹ Based on P&I AUM data as of December 2013 and internal MSCI data as of June 2014.

² As of June 30, 2014. Calculated by aggregating the number of shares of all exchange traded funds tracking an MSCI index, as identified by separate Bloomberg tickers. Only primary listings, and not cross-listings are counted.

³ As of June 30, 2014, as reported on Sept 30, 2014 by eVestment, Morningstar and Bloomberg.

⁴ Accuracy calculated based on number of corrections performed over total number of securities or data points covered.

⁵ As of December 31, 2012, according to Intersec LLC.

The awards reflect our Index Provider leadership position.

Index

European Pension Fund Awards 2014

Index Provider of the Year

Structured Products Europe Awards 2013

Index Innovation of the Year

Asian Investor Service Provider Awards 2013

Best Provider of Benchmark Indices



ETF

ETF.com Awards 2013

Best Index Provider of the Year

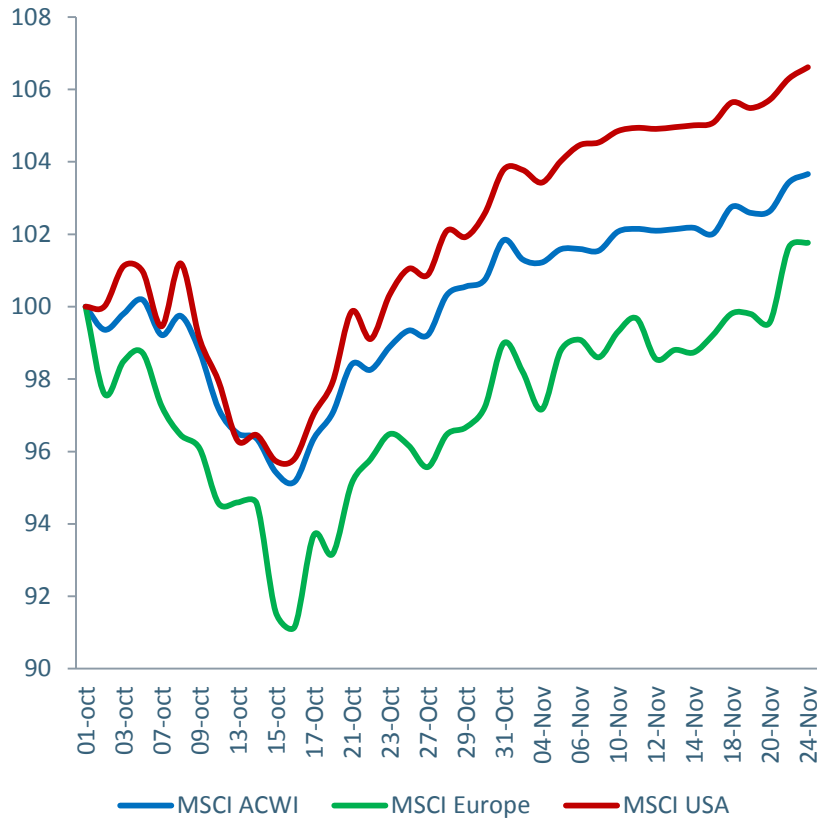
ETF Risk European Rankings 2014

Best Index Provider for ETF Products

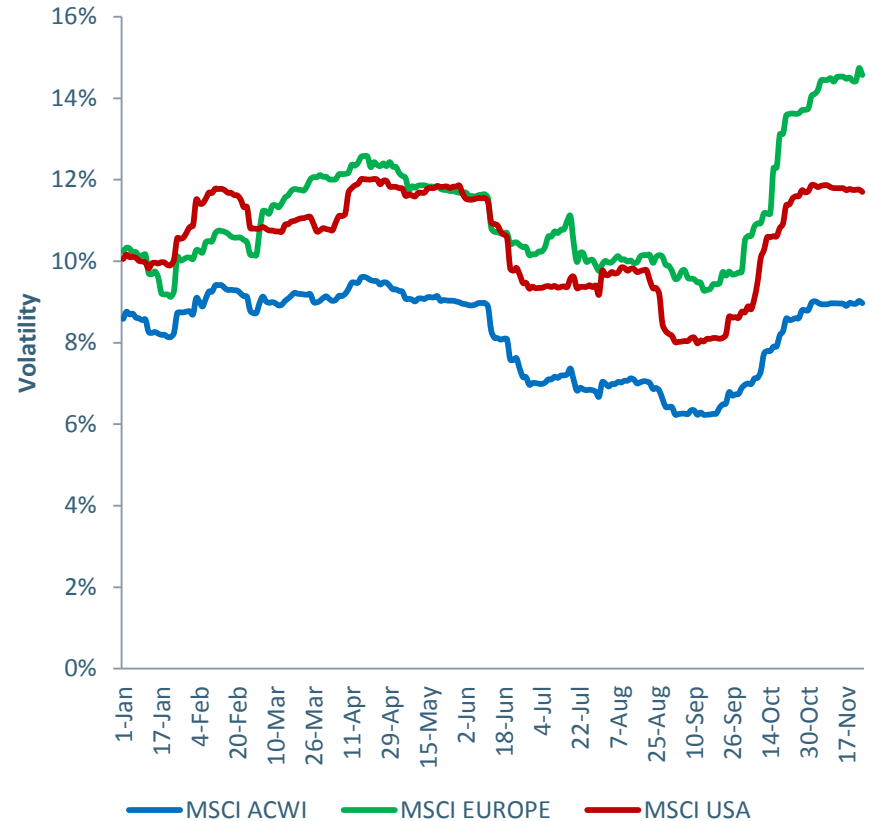


Equity Volatility Has Spiked in Recent Months

Returns of MSCI Standard Indexes Oct-Nov



Volatility of MSCI Standard Indexes YTD

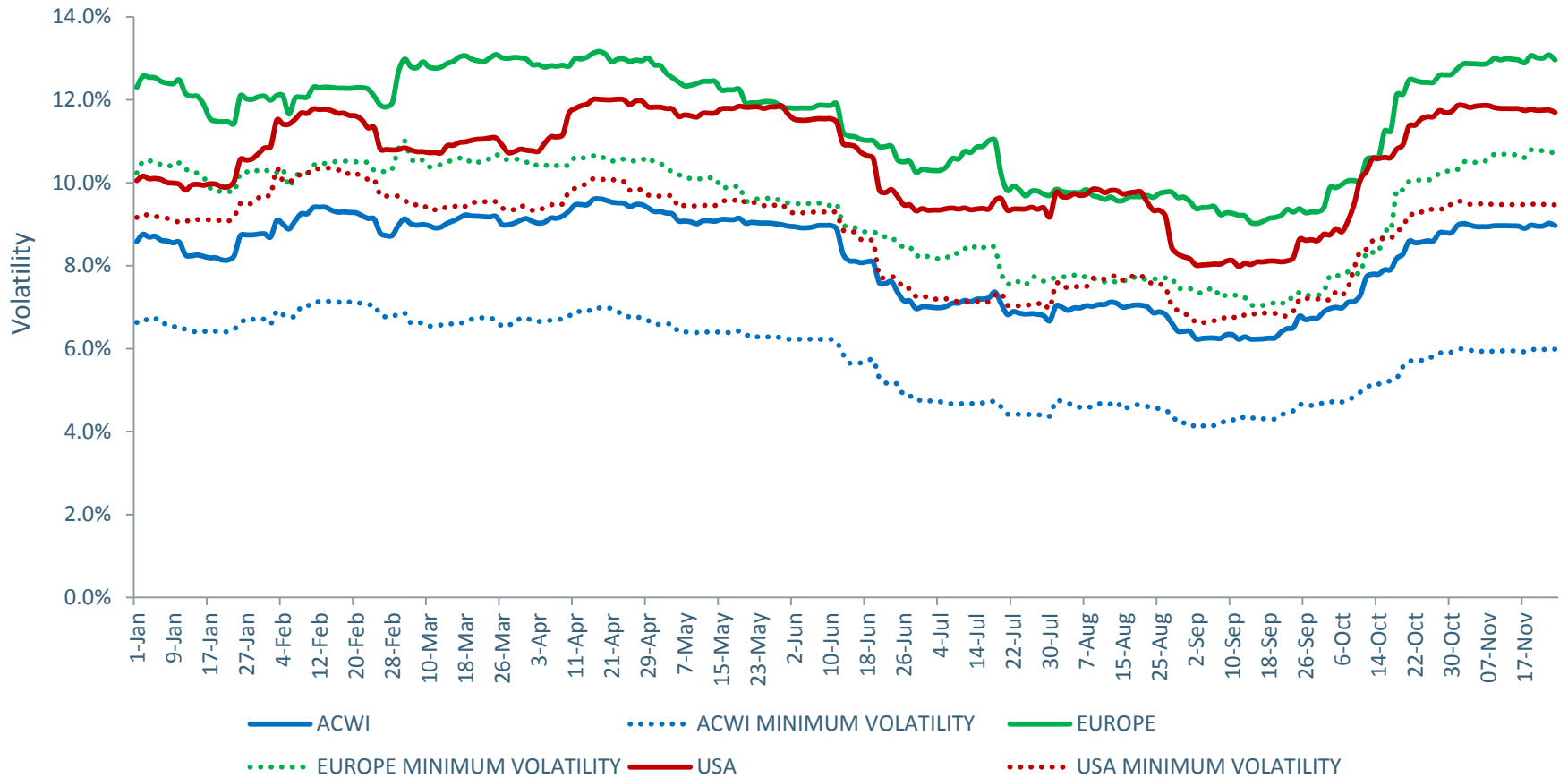


*Volatility calculated as annualized standard deviation of daily returns over 100 rolling days.



Minimum Volatility Indexes Performed as Designed

YTD Volatility of MSCI Minimum Volatility Indexes vs. Parent Indexes

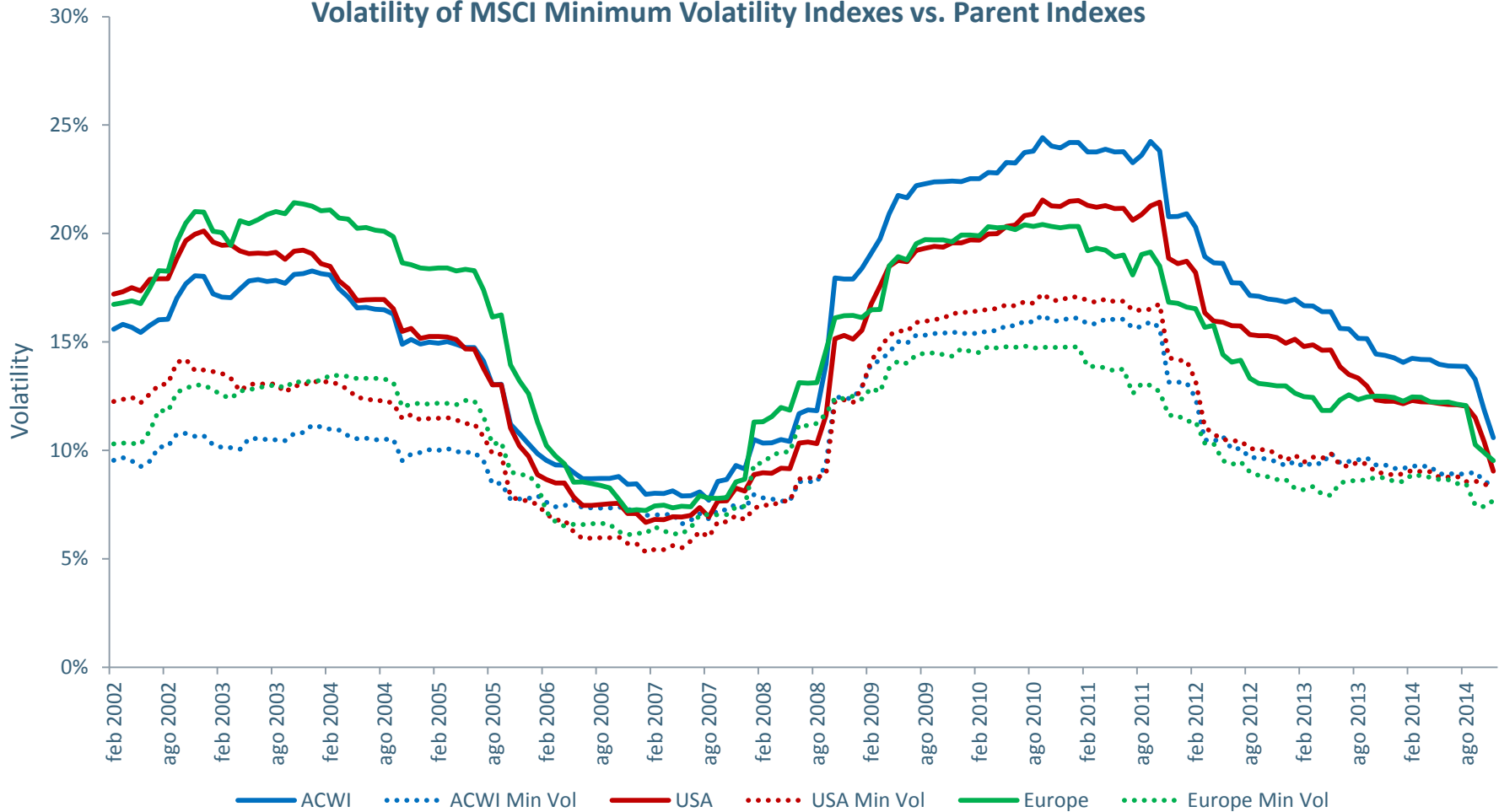


*Volatility calculated as annualized standard deviation of daily returns over 100 rolling days.



Volatility Reduction Over the Long Run

Volatility of MSCI Minimum Volatility Indexes vs. Parent Indexes



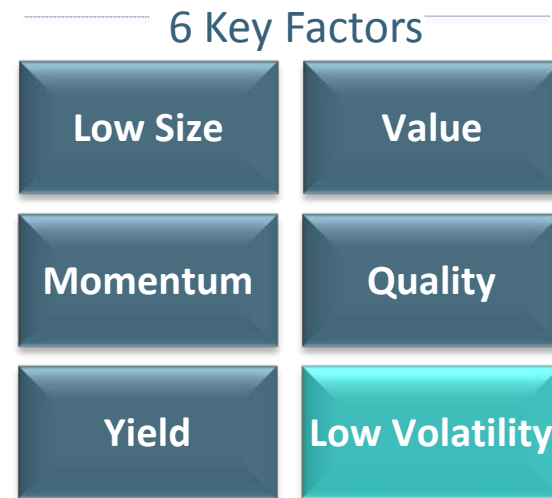
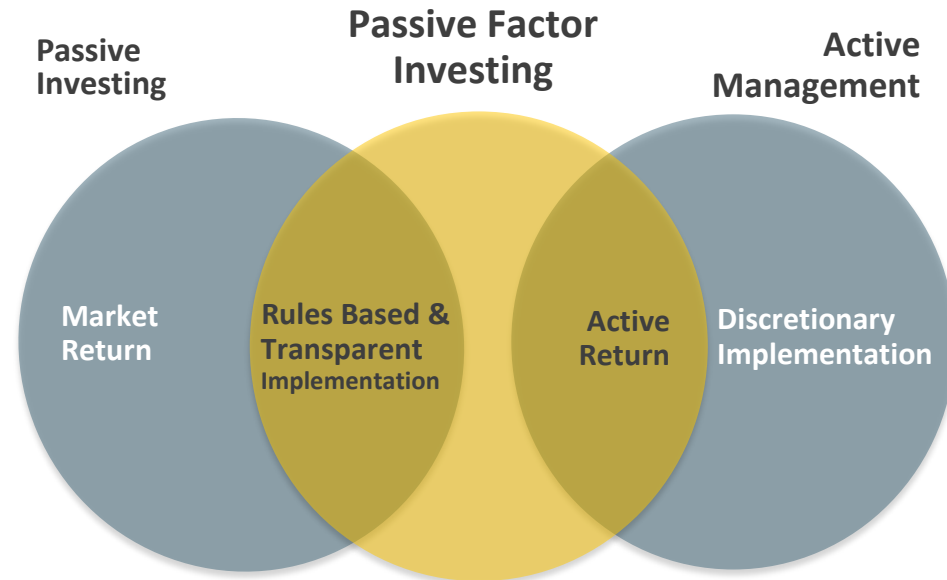
*Volatility calculated as annualized standard deviation of monthly returns over 36 rolling months.

Source: MSCI



Minimum Volatility: Key Piece of Factor Investing

- Simply said, a “factor” is a characteristic that is important in **explaining risk and return**
- Factor investing is the investment process that **aims to capture** such risk and return
- Extensive financial research has shown that six key factors have **historically earned a persistent premium** over long periods of time relative to cap-weighted indexes
- Factor Indexes may provide investors with a **transparent, rules based, flexible and cost-effective** approach to passively seek systematic exposure to factors
- Factor Indexes are **complementary** to Market Cap Indexes and play key roles in asset allocation

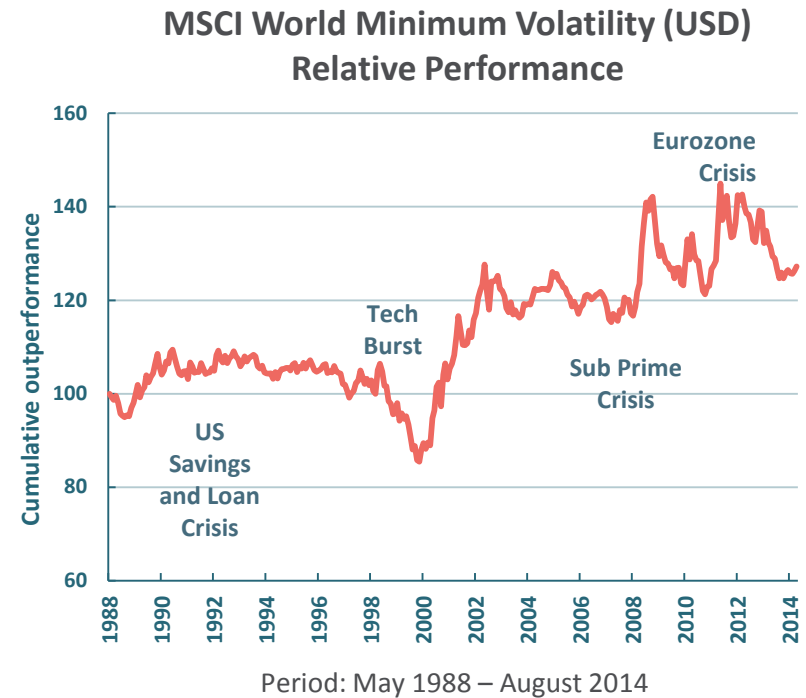


MSCI Min Vol Indexes: longest live history among competing low volatility methodologies

They capture the **broad equity market exposure** without significant bias in countries, sectors and styles.

2008 MSCI launched the Minimum Volatility Indexes.

Only live index during one of the worst financial crises (2008)

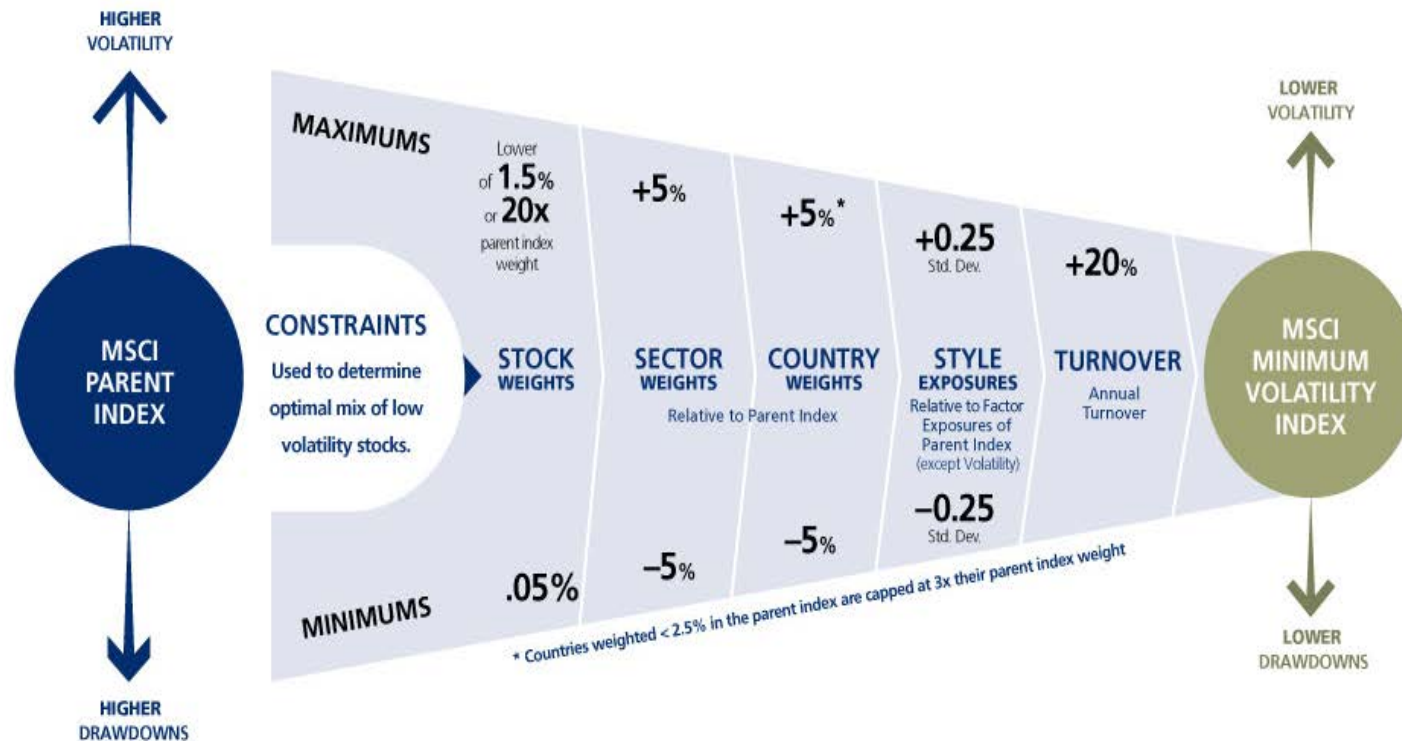


\$108 billion AUM estimated to be benchmarked to MSCI Factor Indexes⁽¹⁾.
41% track Minimum Volatility Indexes.

⁽¹⁾ As of June 30, 2014 and reported as of September 30, 2014 by eVestment, Morningstar, Bloomberg and MSCI.

Minimum Volatility Indexes Construction

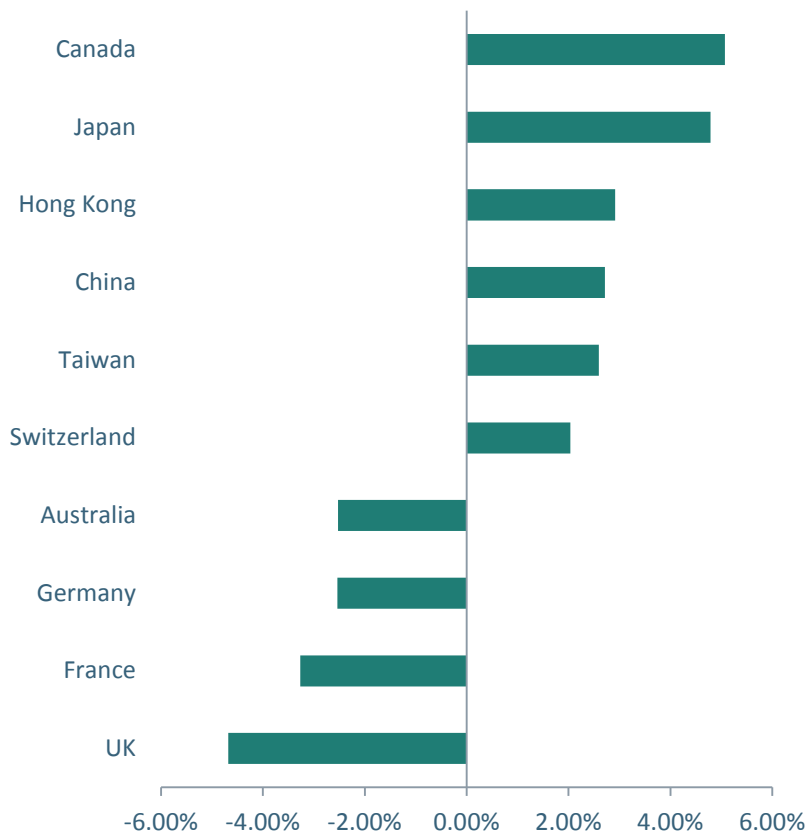
- MSCI applies specific constraints to a broad market index to target a subset of stocks with reduced volatility characteristics
- This process is called **optimization** and maintains the country, sector and style characteristics of the related broad market index



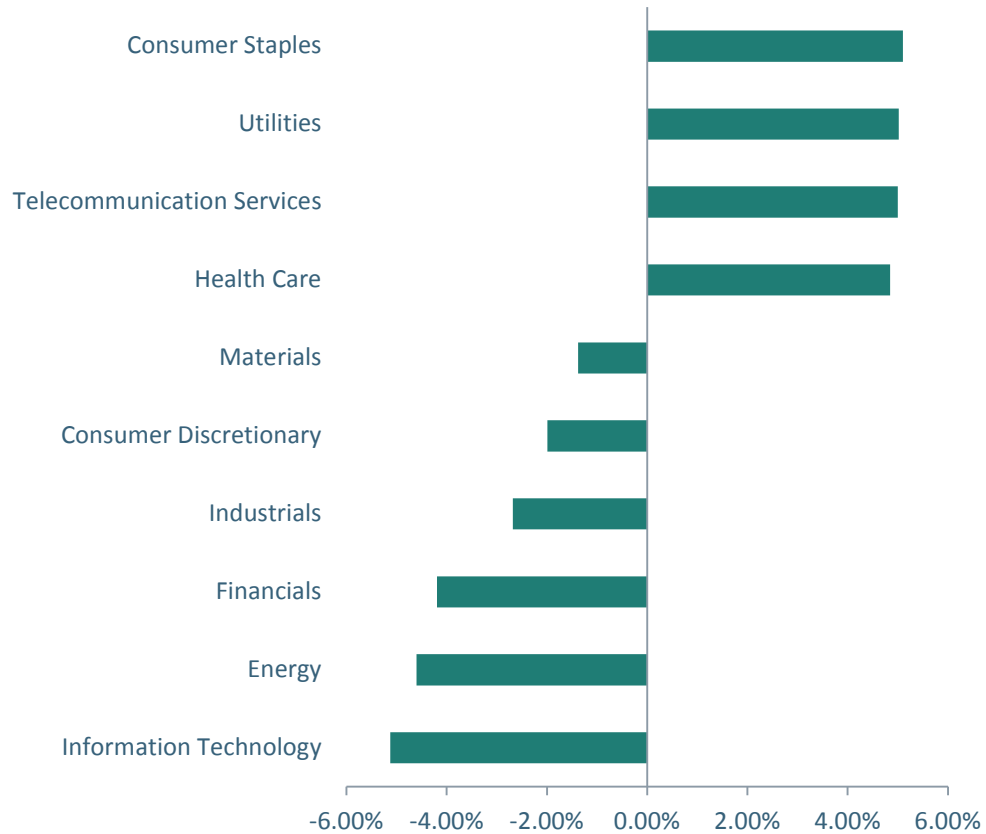
Country and Sector Exposures

MSCI ACWI Minimum Volatility Index vs. MSCI ACWI Index

Top Country Over/Under Weights



Sector Over/Under Weights



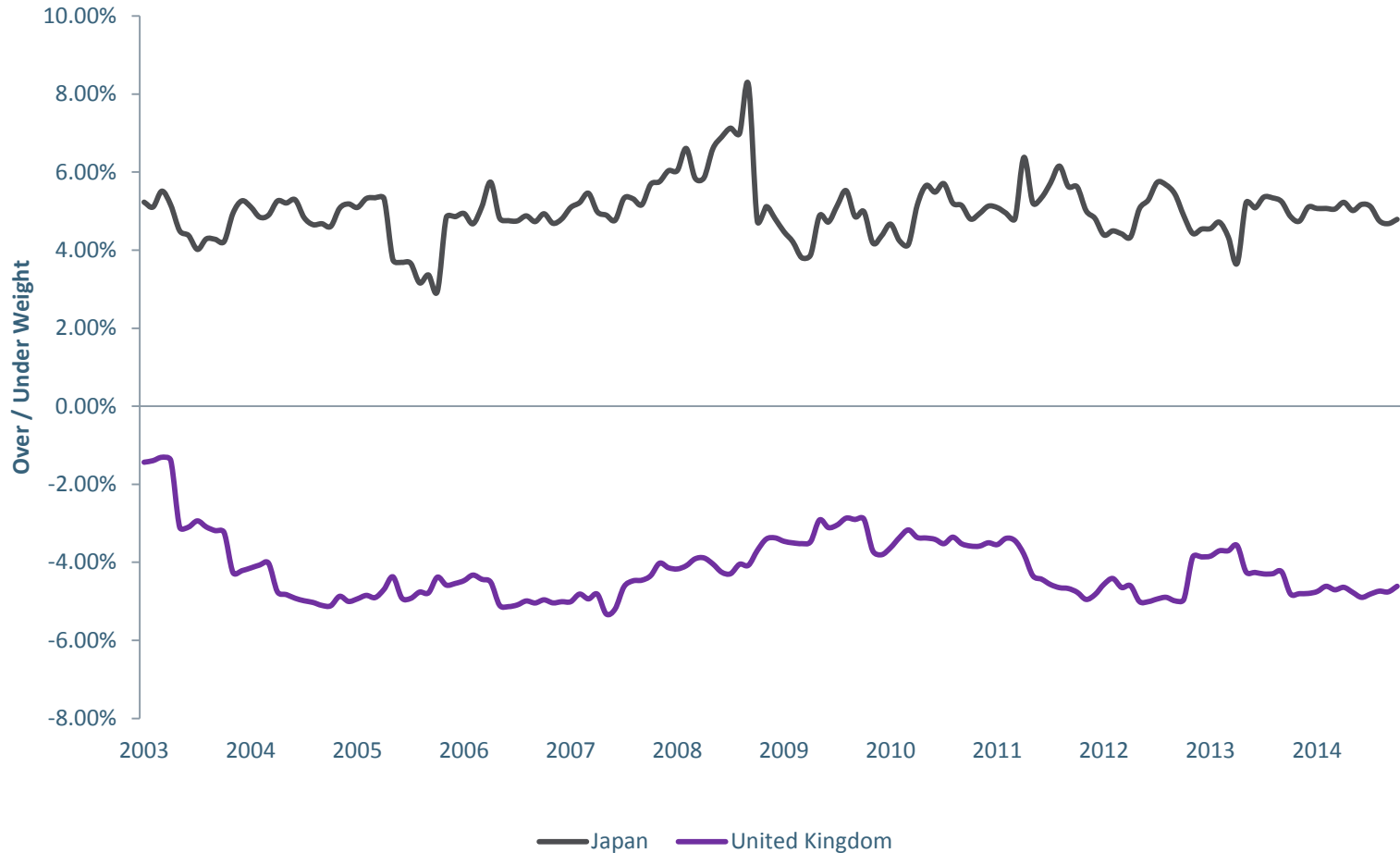
*As of November 30, 2014



Exposures are Dynamic but Constrained

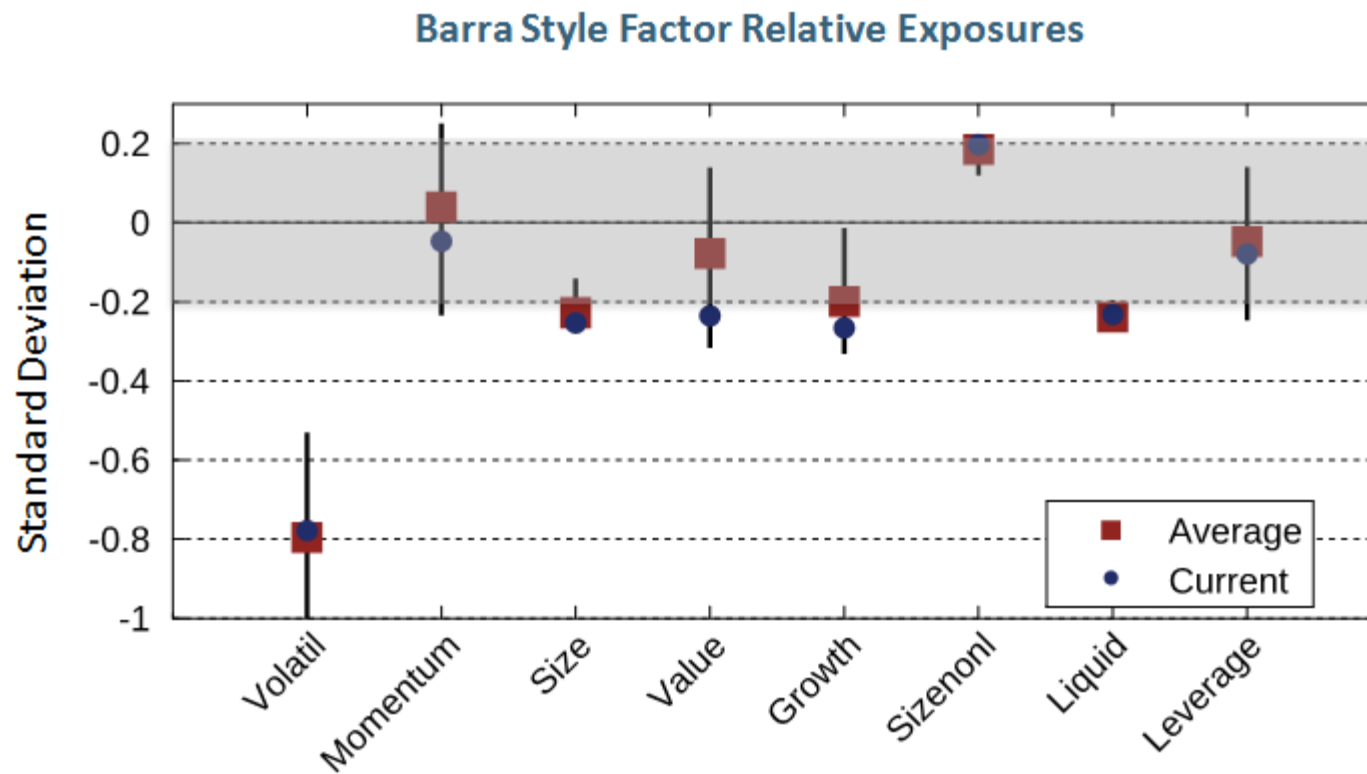
MSCI ACWI Minimum Volatility Index vs. MSCI ACWI Index

Select Country Over / Under Weights



Barra Style Factor Exposures

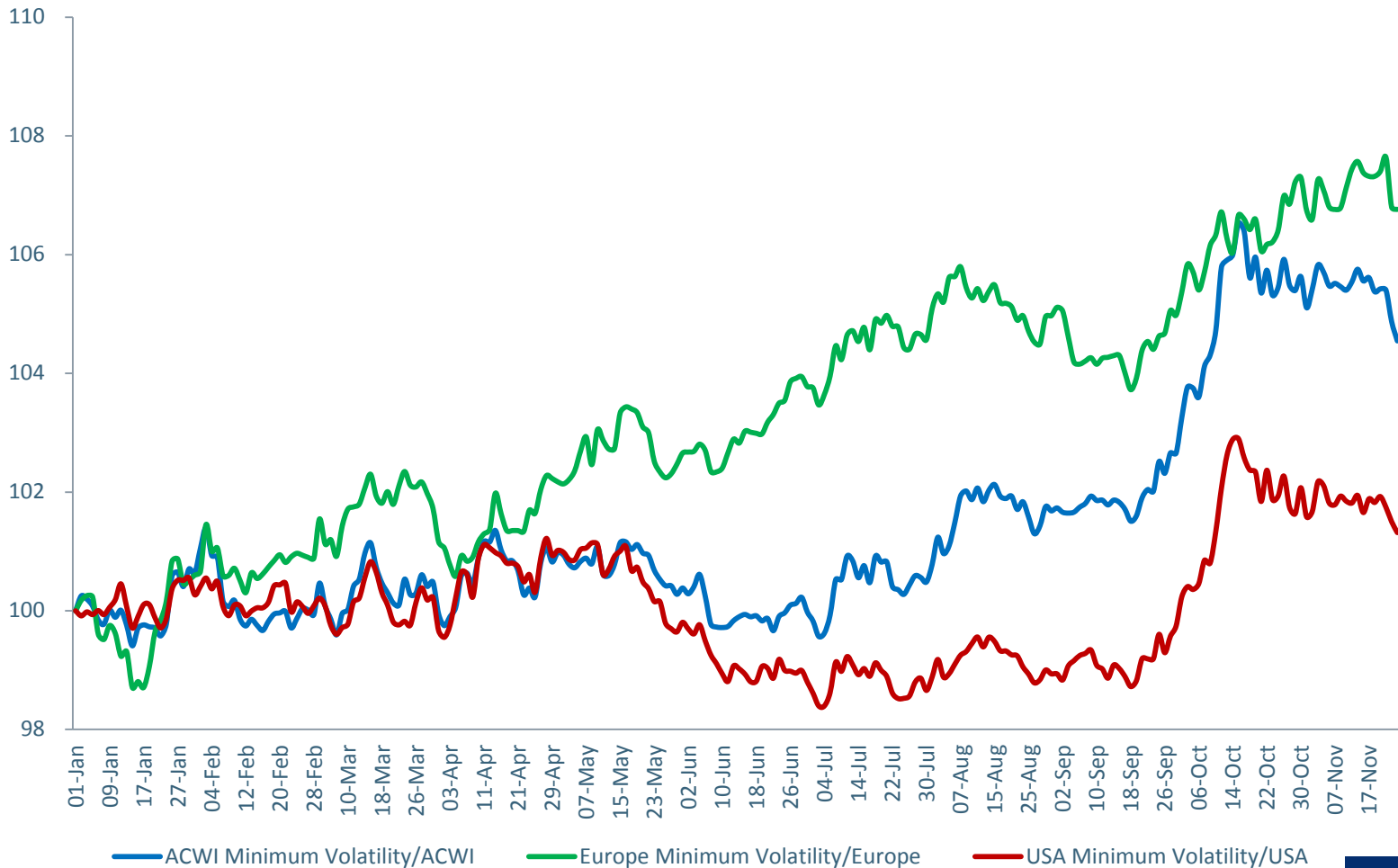
MSCI ACWI Minimum Volatility Index vs. MSCI ACWI Index



*For the period June 1999 through June 2014

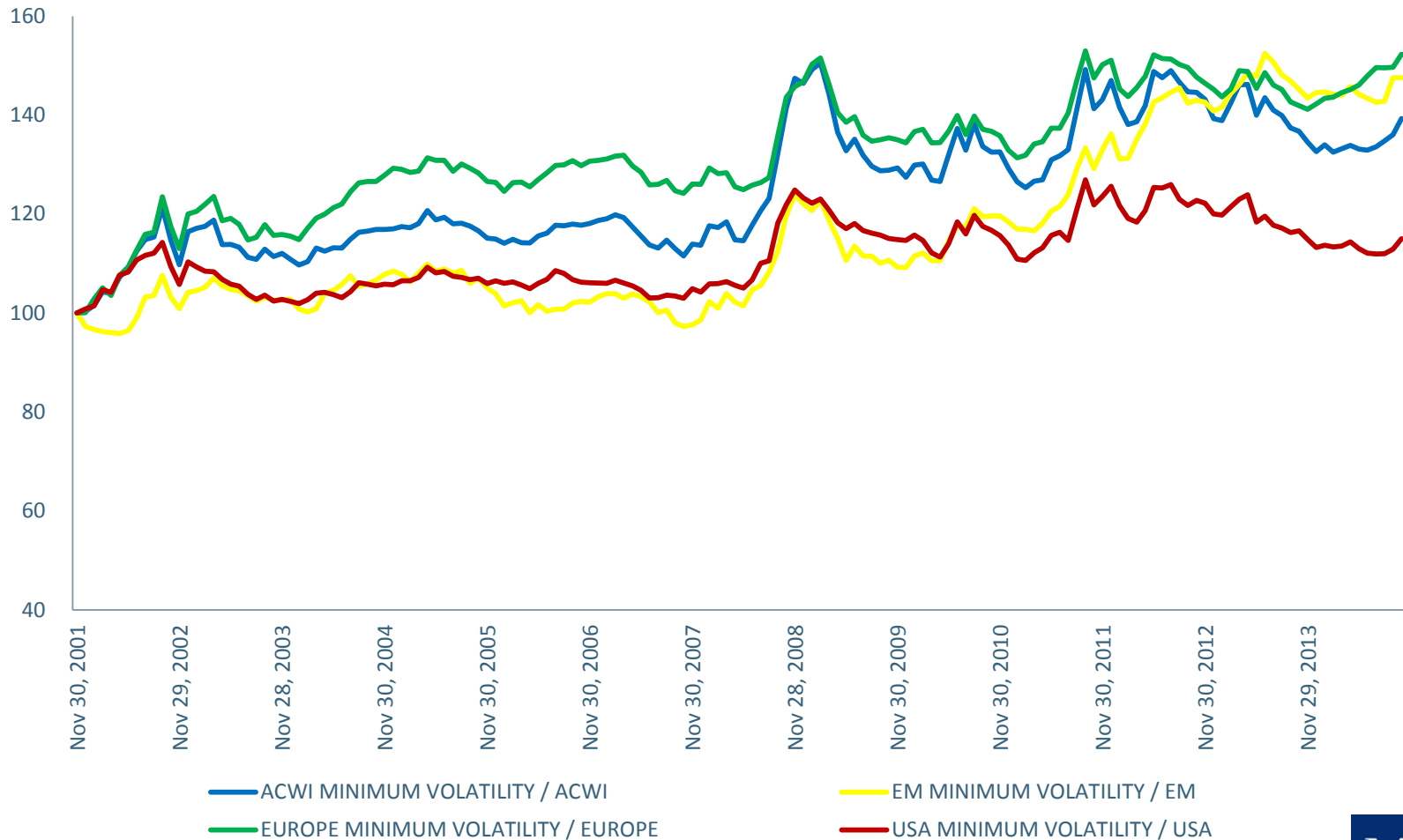
Minimum Volatility Indexes Outperformed YTD

Minimum Volatility Index Relative Performance



Historical Outperformance Over the Long Run

Minimum Volatility Index Relative Performance



MSCI Minimum Volatility Indexes – Key Benefits



Proven Risk Reduction

Across various countries, regions and market environments



Broad Market Representation

Based on MSCI market cap weighted parent indexes



No significant bias

In country, sector or style exposures

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May 2014

BLACKROCK®

Minimum Volatility ETF Applications

Joseph Nelesen, Ph.D.

December 4, 2014

iShares Suite of Minimum Volatility ETFs

ACWV

iShares MSCI ACWI Minimum Volatility ETF

EFAV

iShares MSCI EAFE Minimum Volatility ETF

EEMV

iShares MSCI EM Minimum Volatility ETF

USMV

iShares MSCI USA Minimum Volatility ETF

AXJV

iShares MSCI Asia ex Japan Minimum Volatility ETF

EUMV

iShares MSCI Europe Minimum Volatility ETF

JPMV

iShares MSCI Japan Minimum Volatility ETF

A suite overview¹

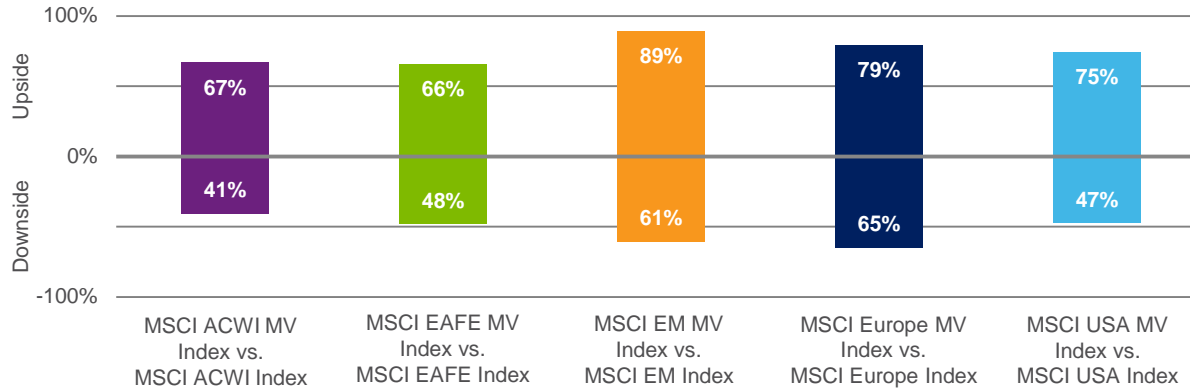
	iShares MSCI ACWI MV ETF	MSCI ACWI Index	iShares MSCI EAFE MV ETF	MSCI EAFE Index	iShares MSCI EM MV ETF	MSCI EM Index	iShares MSCI USA MV ETF	S&P 500 [®]	iShares MSCI Asia ex Japan MV ETF	MSCI Asia ex Japan MV Index	iShares MSCI Europe MV ETF	MSCI Europe MV Index	iShares MSCI Japan MV ETF	MSCI Japan MV Index
Ticker	ACWV	NDUEACWF	EFAV	NDDUEAFE	EEMV	NDUEEGF	USMV	SPXT	AXJV	M1APJVO	EUMV	M00IER\$O	JPMV	M1JPMVOE
Inception	2011		2011		2011		2011		2014		2014		2014	
Net Exp. Ratio	20 bps ²	N/A	20 bps ³	N/A	25 bps ⁴	N/A	15 bps	N/A	35 bps	N/A	25 bps	N/A	30 bps	N/A
Beta to the S&P 500	0.59	1.01	0.60	1.06	0.61	0.88	0.70	1.00	N/A	N/A	N/A	0.88	N/A	N/A
Standard Deviation	8.4%	13.3%	10.1%	15.6%	12.6%	16.6%	9.6%	12.5%	N/A	N/A	N/A	13.5%	N/A	N/A

- Beta and standard deviation are based on weekly returns since fund inception (10/18/11). Beta relative to the S&P 500 and standard deviation are not included for AXJV, EUMV and JPMV (and the benchmarks for AXJV and JPMV) due to insufficient performance history; funds launched 6/5/14; AXJV's benchmark launched 1/16/12 and JPMV's benchmark launched 2/18/14.
- Effective May 16, 2012, the investment adviser to the iShares MSCI All Country World Minimum Volatility ETF has voluntarily agreed to waive a portion of its management fees in order to reduce the total fund operating expenses from 0.34% to 0.20%. Without such waivers the Fund's performance would have been lower. This voluntary fee waiver may be eliminated at any time.
- BlackRock Fund Advisors, the investment adviser to the iShares MSCI EAFE Minimum Volatility ETF and an affiliate of BlackRock Investments, LLC, has contractually agreed to waive a portion of its management fees in order to limit Total Annual Fund Operating Expenses to 0.20% of average daily net assets until December 31, 2014.
- BlackRock Fund Advisors, the investment adviser to the iShares MSCI Emerging Markets Minimum Volatility ETF and an affiliate of BlackRock Investments, LLC, has contractually agreed to waive a portion of its management fees in order to limit Net Expenses to 0.25% of average daily net assets until December 31, 2014.

Sources: Blackrock, Morningstar and MPI Stylus, as of 9/30/14. S&P 500 is the S&P 500 Total Return Index in all examples.

Performance Characteristics

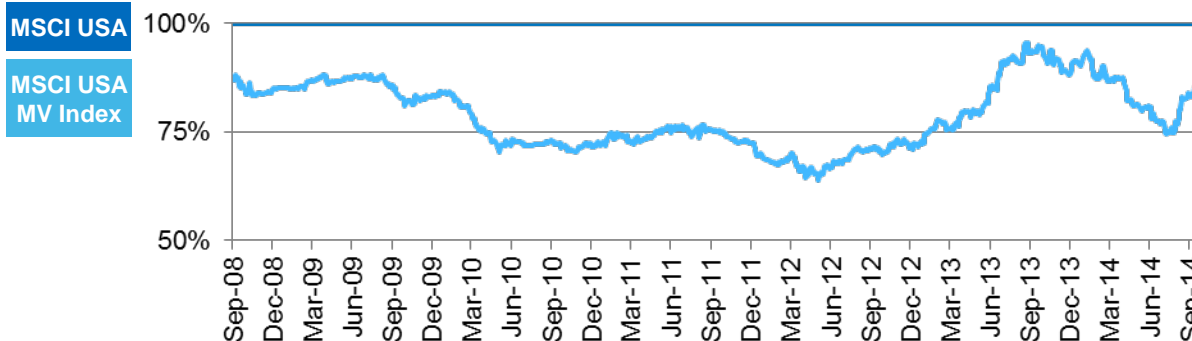
Downside Protection, Upside Participation



- ▶ Since inception, the MSCI MV Indices have captured **more upside than downside** relative to their benchmarks.
- ▶ The chart at left displays the **percentage of the upside and downside (relative to benchmark returns) that the MV indices have captured since December 2009.**

Source: Morningstar. Based on monthly index returns from 12/1/09 – 9/30/14.
 MSCI USA MV Index inception: 5/30/08, all other MSCI MV Indices above inception: 11/30/09.

Volatility Case Study: Rolling Standard Deviation Relative to the S&P 500



- ▶ Since inception, the relative **90-day rolling standard deviation¹ of the MSCI USA MV Index has been 21.2% lower than that of the MSCI USA** on average.
- ▶ Chart at left plots the 90-day rolling standard deviation of the MSCI USA MV Index as a percentage of the 90-day rolling standard deviation of the MSCI USA.

1. Relative standard deviation defined as: $\left(\frac{90\text{-day rolling std. dev. of the MSCI USA MV Index}}{90\text{-day rolling std. dev. of the MSCI USA}} \right)$

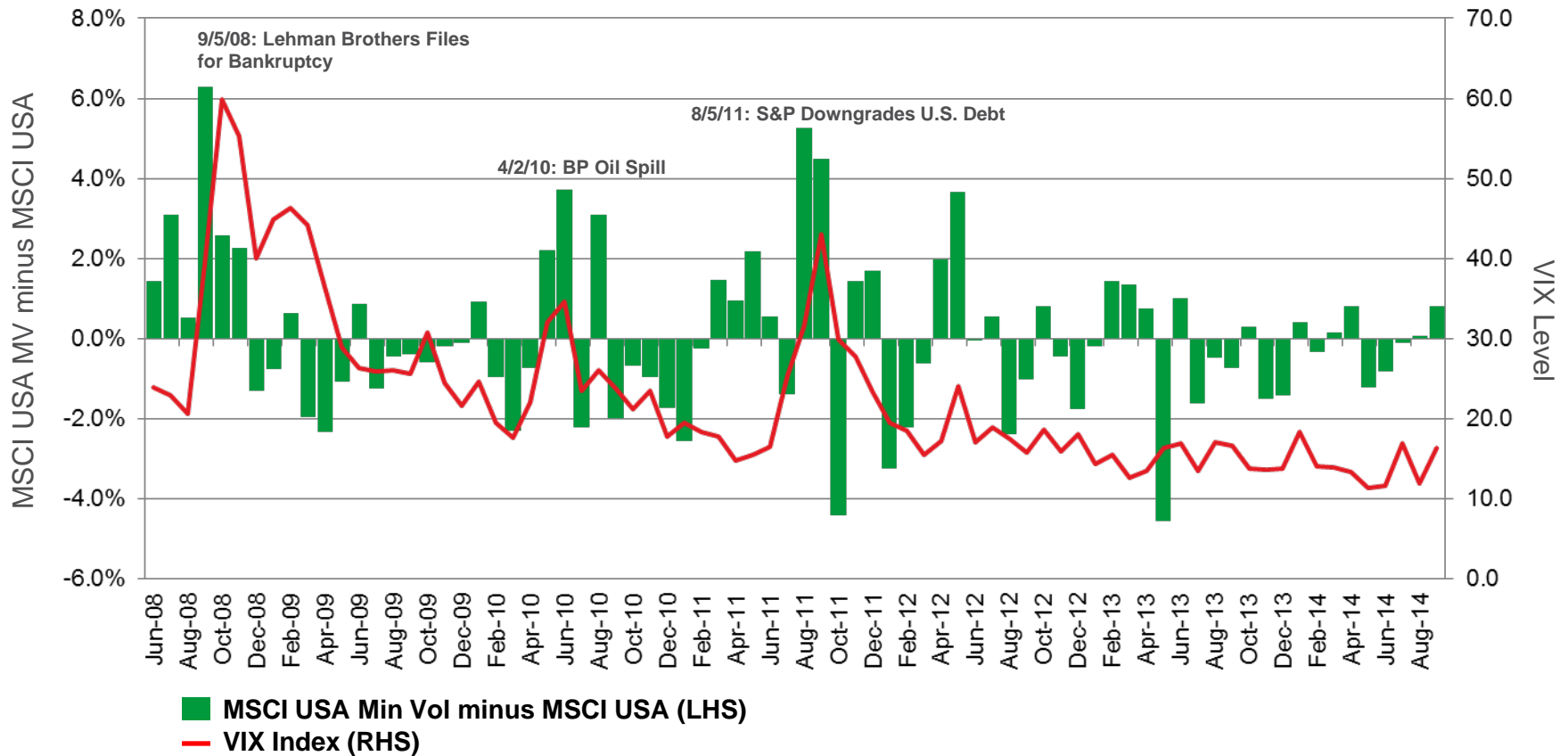
Sources: Morningstar, Bloomberg and MPI Stylus, as of 9/30/14.

Index returns are for illustrative purposes only and do not represent actual iShares 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.

MSCI USA Minimum Volatility Index – MSCI USA Performance vs VIX Index

Monthly Difference in Returns (June 2008 – September 2014)

Minimum Volatility indices have performed best when market volatility was high.



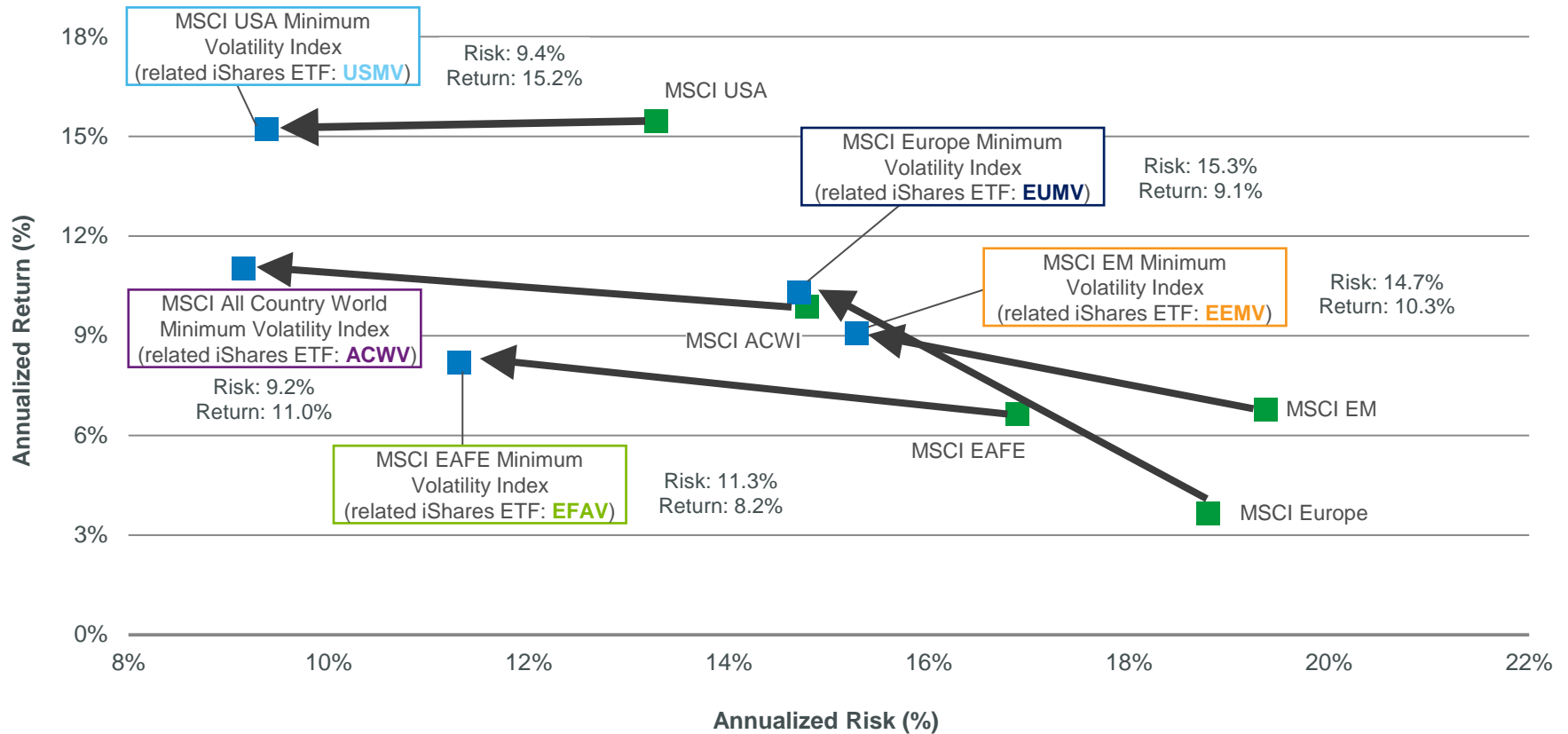
Source: Bloomberg, as of 9/30/14.

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Risk-Adjusted Return Index Profiles

Minimum Volatility Strategies seek to provide

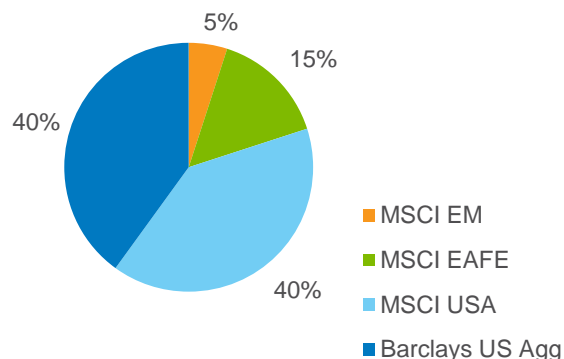
- ▶ Downside protection while maintaining some exposure to upside price movement.
- ▶ Targeted equity market returns with less variability.



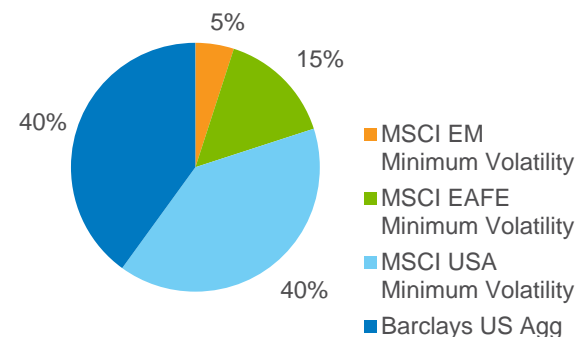
Source: Morningstar and MPI Stylus. MSCI Minimum Volatility indexes inception 5/30/08 (USA) and 11/30/09 (EM, EAFE, ACWI, EUROPE). Data shown based on index returns from 12/1/09 – 9/30/14. Index data are for illustrative purposes only and do not represent actual iShares Fund performance. Index performance 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. For actual iShares Fund performance, please visit www.iShares.com or request a prospectus by calling 1-800-iShares (1-800-474-2737).

Implementation Strategies

Sample: No Minimum Volatility Indexes



Sample: Minimum Volatility Indexes



MSCI Index	Related iShares ETF
MSCI EM Minimum Volatility	EEMV
MSCI EAFE Minimum Volatility	EFAV
MSCI USA Minimum Volatility	USMV

	Sample Portfolio No Minimum Volatility Indexes	Sample Portfolio With Minimum Volatility Indexes
Annualized return (Since inception)	9.23	9.50
Annualized standard deviation (Since inception)	8.22	5.83
Sharpe ratio	1.11	1.58
Max drawdown return	-9.50	-3.82
# Max drawdown months	5	2

- ▶ Potentially reduce risk of the overall portfolio.
- ▶ Retain risk budget and allocate additional assets to high conviction exposures.
- ▶ Introduce new assets classes to risk averse clients.

Portfolio Inception Date 12/1/09.

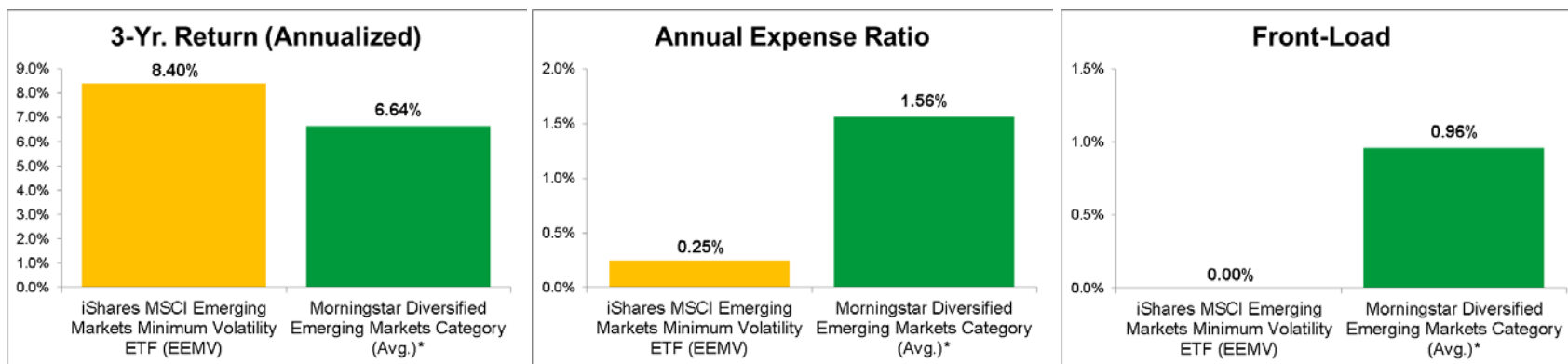
Sources: BlackRock, Morningstar and MPI Stylus. 12/1/09 – 9/30/14. Sample portfolios are for illustrative purposes only, and do not represent a recommendation of any security or asset allocation strategy. Returns are hypothetical and are not representative of any funds of investments.

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Implementation Strategies

- ▶ Potentially replace underperforming active funds
- ▶ Reduce risk while harnessing return
- ▶ Lower expense and daily transparency vs. active funds



Sources: Bloomberg, Morningstar. 11/30/11 – 11/30/14. Morningstar category performance average for Diversified Emerging Markets mutual fund category. For actual iShares Fund performance, please visit www.iShares.com or request a prospectus by calling 1-800-iShares (1-800-474-2737). This information should not be relied upon as research, investment advice or a recommendation regarding the iShares Funds or any security in particular. This information is strictly for illustrative and educational purposes.

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