

Asset Management Evolution, Not Revolution

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May 2013

The asset managers

Evolution of asset management industry

1990		2000		2011		
Rank	Firm	AUM (\$B)	Firm	AUM (\$B)	Firm	AUM (\$B)
1	Bankers Trust	\$120.8	Fidelity	\$1,037.5	BlackRock	\$3,512.7
2	Fidelity	\$118.8	Barclays Global Investors	\$801.7	State Street Global Advisors	\$1,856.9
3	Merrill Lynch	\$110.0	State Street Global Advisors	\$724.5	Vanguard	\$1,848.5
4	Wilmington Trust	\$102.5	Deutsche Asset Mgmt	\$677.1	Fidelity	\$1,715.9
5	MetLife	\$98.3	JP Morgan	\$638.8	PIMCO	\$1,357.2
6	Aetna Life Insurance	\$89.3	Vanguard	\$587.7	JP Morgan	\$1,336.2
7	Wells Fargo Nikko	\$78.8	Merrill Lynch	\$556.7	BNY Mellon	\$1,260.3
8	NCNB Corp	\$67.5	BNY Mellon	\$470.5	Capital Research	\$977.8
9	State Street Bank & Trust	\$63.7	Morgan Stanley	\$457.2	Prudential	\$900.7
10	Kemper Financial	\$63.4	AllianceBernstein	\$453.6	Amundi	\$854.9

Source: Pensions & Investments. As of 31 December 2011.

Mergers Yield Diverse Business Models

BLACKROCK®

**Deutsche Asset
Management**

Deutsche Bank Group

**Morgan Stanley
Investment
Management**

**Legg
Mason**

- Barclays Global Investors
- Merrill Lynch Investment Managers
- State Street Research

- Zurich Financial Services
- Kemper Financial
- Scudder Investments
- Bankers Trust

- Miller, Anderson & Sherrerd
- Van Kampen American Capital
- Intercapital, Inc.

- Permal
- Perigree
- Western Asset Management
- ClearBridge Advisors
- Brandywine Global
- Batterymarch Financial Management
- Royce & Associates

Publicly-traded asset managers

Ten largest US publicly-traded asset managers

Rank	Firm	IPO year	Market cap (\$Million) ¹	AUM (\$Billion) ²
1	BlackRock	1999	\$44,852	\$3,792
2	Franklin Resources	1983	31,789	782
3	T. Rowe Price Group	1986	19,765	577
4	Invesco	1993	13,008	688
5	Affiliated Managers Group	1997	8,225	432
6	AllianceBernstein	1988	5,959	430
7	Eaton Vance	1979	4,878	248
8	Legg Mason	1983	4,226	649
9	Waddell & Reed Financial	1998	3,724	96
10	Artisan Partners	2013	2,573	74
Total			\$138,999	\$7,768

1) Market data as of 14 March 2013. Source: Factset

2) AUM data as of 31 December 2012. Source: Company Filings, Pensions & Investments

Alternatives Firms are Increasing in Importance

	Hedge Funds ¹	Hedge FoFs ²	Private Equity ³	Private Equity FoFs ⁴	Real Estate ⁵
1	Bridgewater	Blackstone	TPG	AlpInvest	Prudential
2	J.P. Morgan	UBS	KKR	Goldman Sachs	UBS
3	Brevan Howard	HSBC	Goldman Sachs	HarbourVest	CBRE
4	Man Investments	Goldman Sachs	Oaktree	Credit Suisse	RREEF
5	BlueCrest	Grosvenor	Carlyle Group	Pathway	J.P. Morgan
6	Och-Ziff	Morgan Stanley	Blackstone	Partners Group	TIAA-CREF
7	Winton Capital	FRM / Man ⁶	Bain	AXA	LaSalle
8	Baupost Group	Permal	Apollo	Pantheon	Principal Real Estate Investors
9	BlackRock	BlackRock	CVC Capital	Hall Cap. Partners	AEW
10	Angelo, Gordon	PAAMCO	Advent	J.P. Morgan	Cornerstone

Rankings by AUM except for private equity. Private equity data represents top managers ranked by assets raised over the past 10 years.

Source: 1) Source: Absolute Return Magazine, BlackRock as of 30 June 2012. 2) Source: HFR, Absolute Return Magazine, BlackRock as of 30 June 2012. 3) Source: Preqin as of 3Q2012. PE data represents top managers ranked by assets raised over the past 10 years. 4) Source: Preqin as of 30 June 2012. 5) Source: Pensions & Investments, Real Estate Manager Rankings, as of 30 June 2012. 6) Man acquired FRM in May 2012.

Publicly-traded alternatives managers

Largest US publicly-traded alternatives managers

Rank	Firm	IPO year	Market cap (\$Million) ¹	AUM (\$Billion) ²
1	The Blackstone Group	2007	\$23,469	\$210
2	KKR & Co.	2010	13,899	76
3	Carlyle Group	2012	10,093	170
4	Apollo Global Management	2007	9,194	113
5	Oaktree Capital Group	2011	7,824	77
6	Och-Ziff Capital	2007	4,315	33
7	Fortress Investment Group	2007	3,608	53
Total			\$72,402	\$732

1) Market data as of 14 March 2013. Source: Factset

2) AUM data as of 31 December 2012. Source: Company Filings, Pensions & Investments

Globalization of asset management...

BlackRock has a presence in nearly 70 cities across 30 countries

North America

- Bloomfield Hills
- Boston
- Charlotte
- Chicago
- Durham
- Montreal
- New York
- Newport Beach
- Philadelphia
- Pittsburgh
- Princeton
- San Francisco
- Seattle
- Toronto
- Wilmington

Latin America

- Mexico City
- Santiago
- São Paulo

UK, Continental Europe & Middle East

- Amsterdam
- Brussels
- Dubai
- Dublin
- Edinburgh
- Frankfurt
- Geneva
- London
- Luxembourg
- Madrid
- Milan
- Munich
- Paris
- Peterborough
- Stockholm
- Vienna
- Warsaw
- Zurich

Australia

- Brisbane
- Melbourne
- Perth
- Sydney

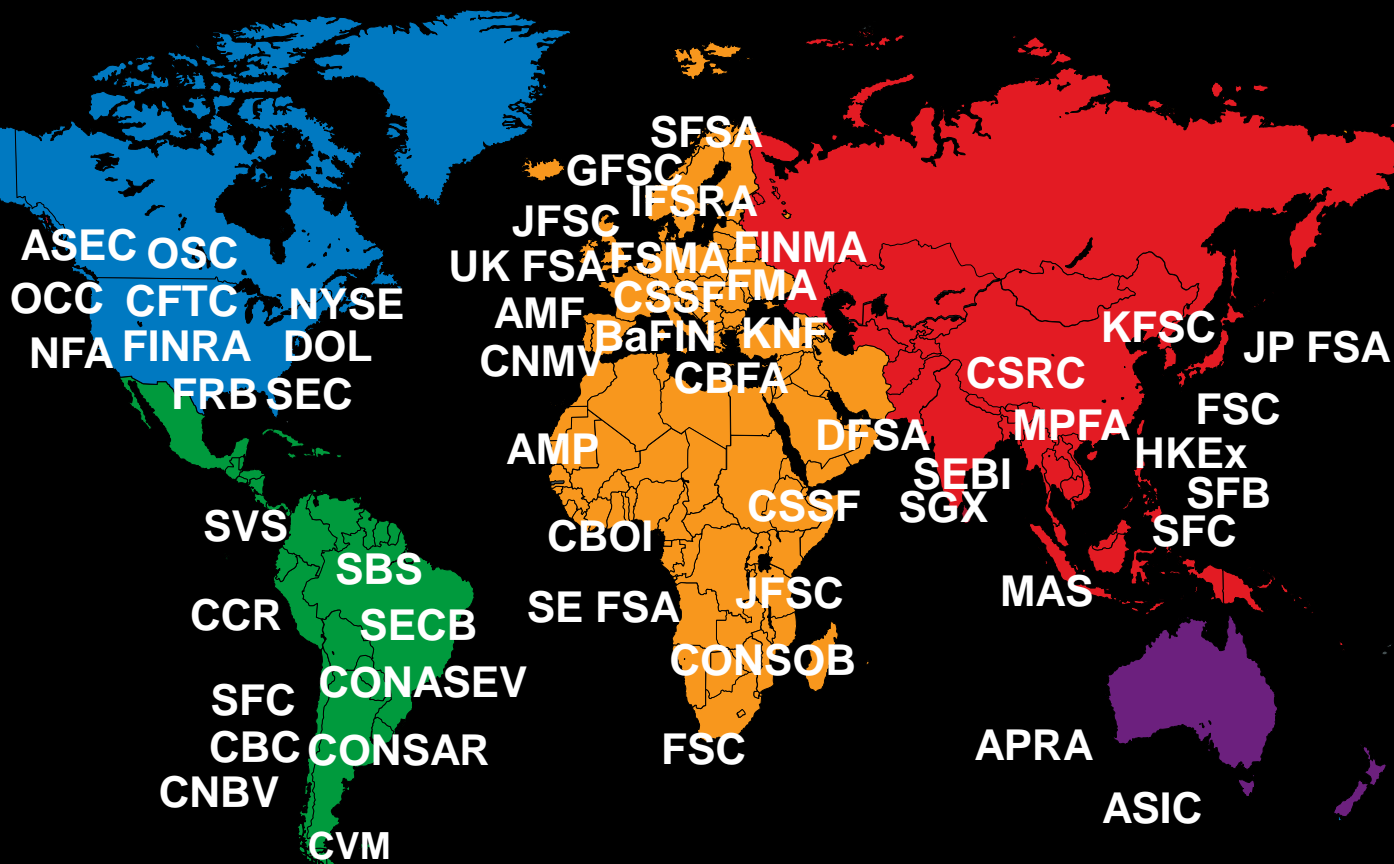
Asia

- Beijing
- Gurgaon
- Hong Kong
- Mumbai
- Seoul
- Shanghai
- Singapore
- Taipei
- Tokyo

Representative list of BlackRock locations shown above.

...leads to global regulatory framework

BlackRock is regulated by more than 80 authorities



Changing client needs and preferences

Major industry trends

Persistently low rates and pension underfunding

Changing asset allocations

- ▶ Greater focus on alternatives
- ▶ Demand for uncorrelated alpha

Shift to defined-contribution away from defined-benefit

Increased interest in emerging markets

Demand for passive products outpacing active demand

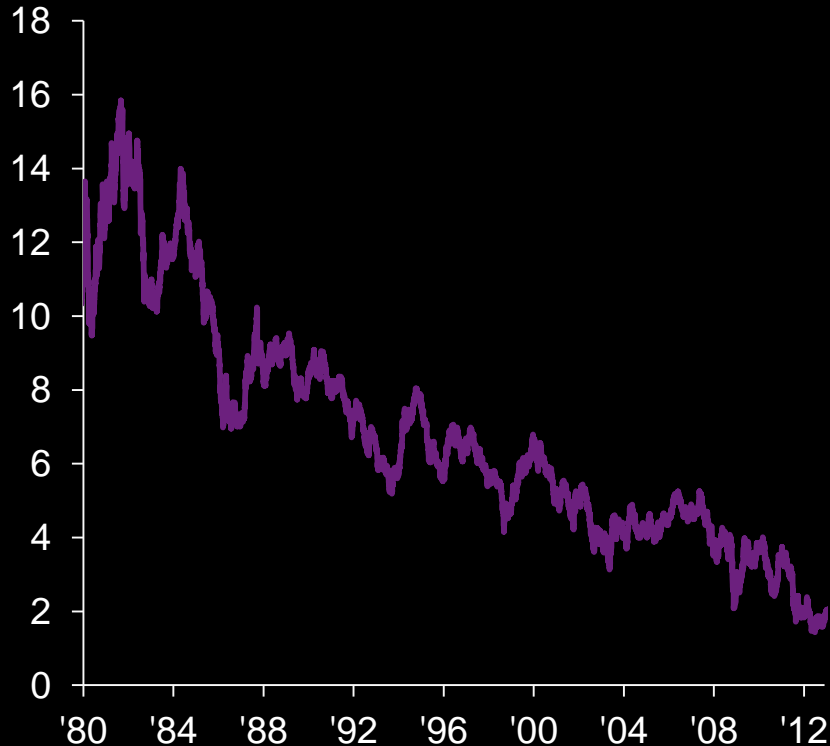
- ▶ Mutual funds and ETFs meet client needs

Institutions seek comprehensive “solutions”

Persistent low rates creating challenges for investors...

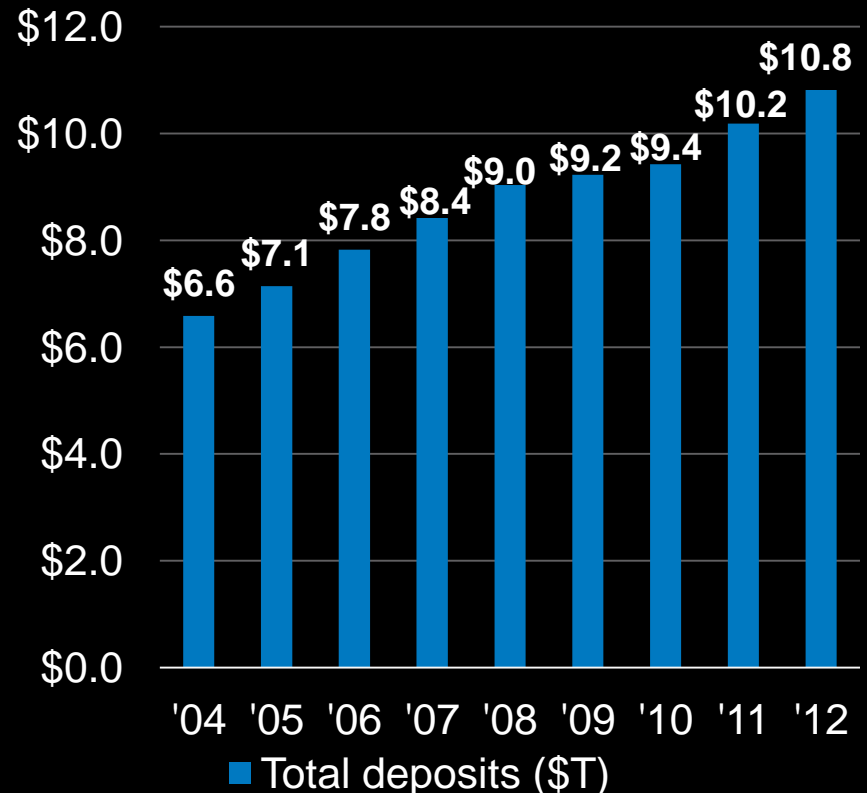
Cash and traditional fixed income yields remain insufficient to overcome inflation

10 year US Treasury yield in decline



Source: Federal Reserve Bank of St. Louis. As March 2013.

US deposits increase to \$10.8T



Source: Federal Deposit Insurance Corp. As of 31 December 2012.

...and exacerbating pension funding problem

Pension funding deficits have grown over time

**Funded ratio –
Typical US pension plan**



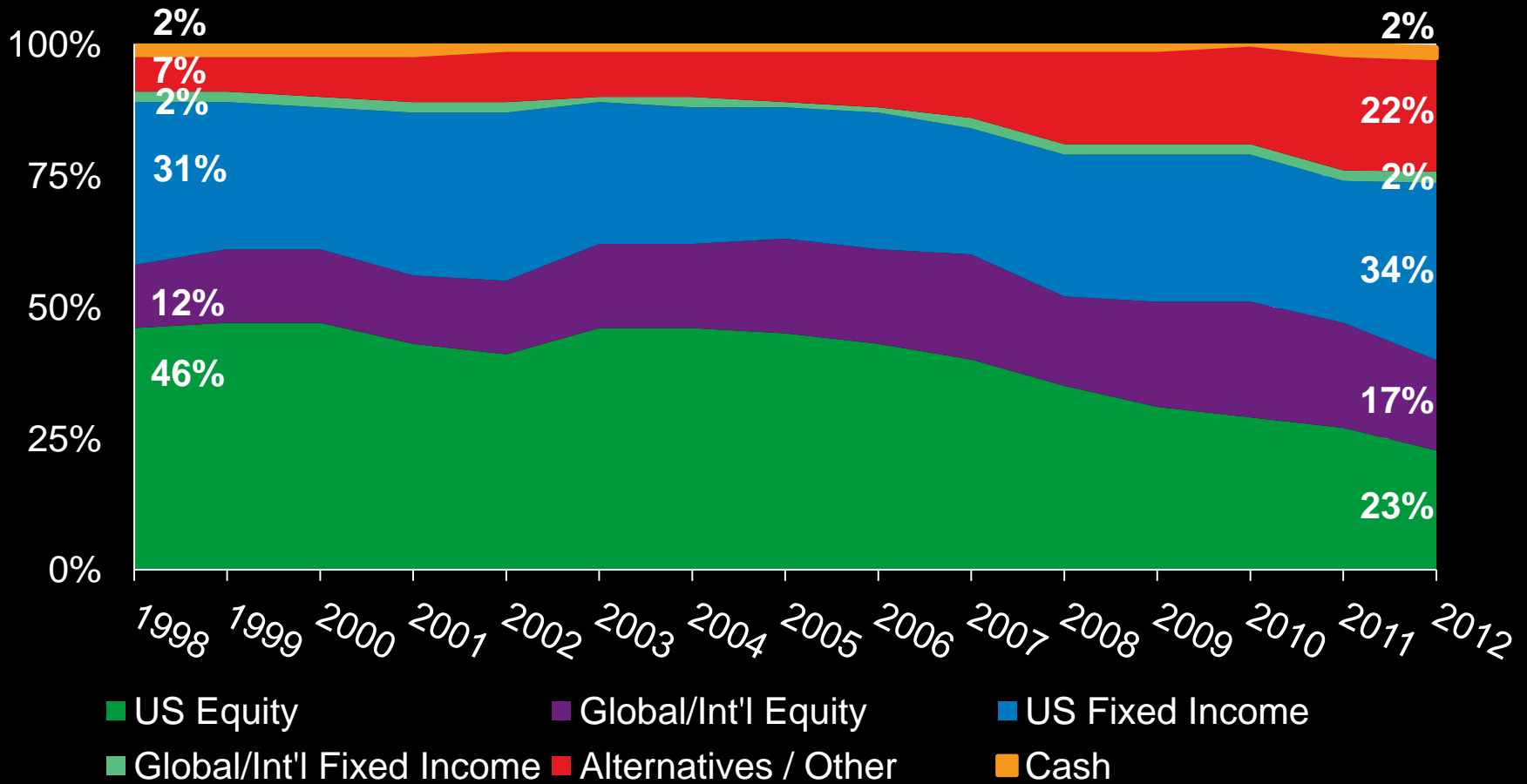
**Assets versus liabilities
– Typical US pension plan**



Notes: Assets indexed to 85 on 12/31/10. Liabilities indexed to 100 on 12/31/10.

Shifting asset allocations for US pension plans

Asset allocation for typical US corporate plan



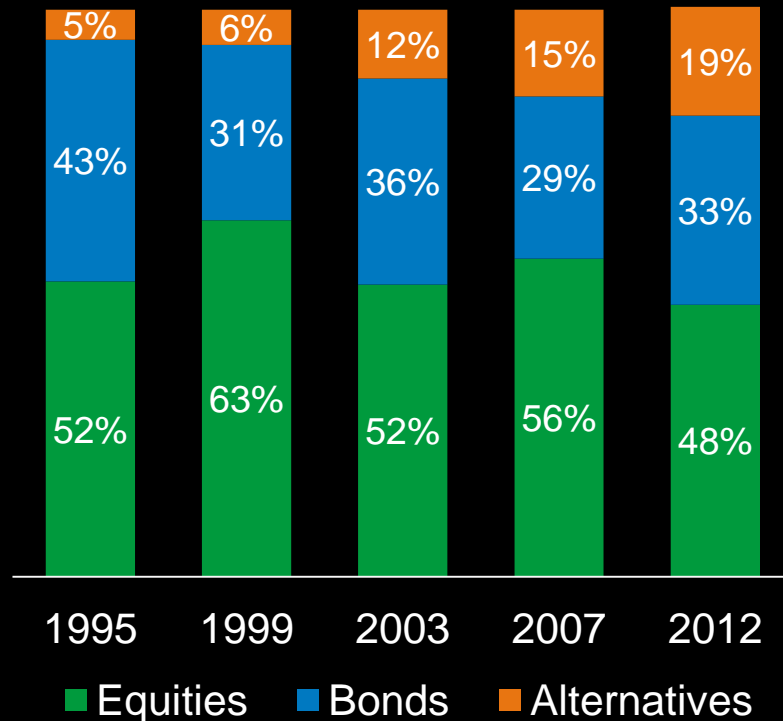
Note: Data based on average of Top 200 US Defined Benefit Plans
 Source: Pension & Investments. 2012 data as of September 30, 2012.

Growing demand for uncorrelated alpha

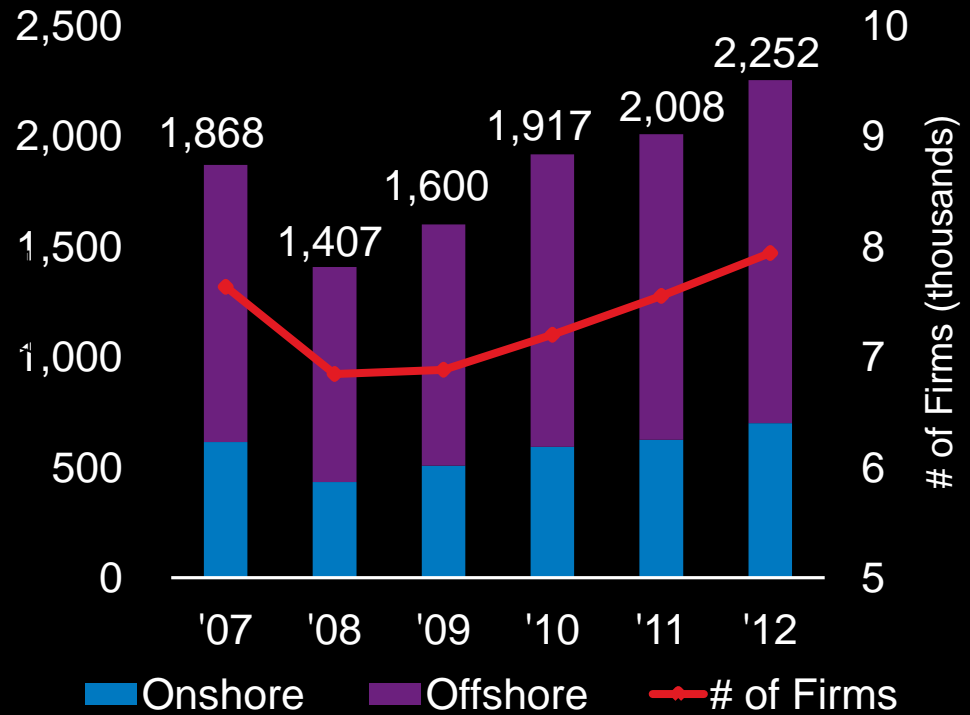
Low yields, greater correlation between asset classes and unmatched liabilities have made alternatives more attractive

Hedge funds surpassed pre-crisis levels to reach \$2 Trillion

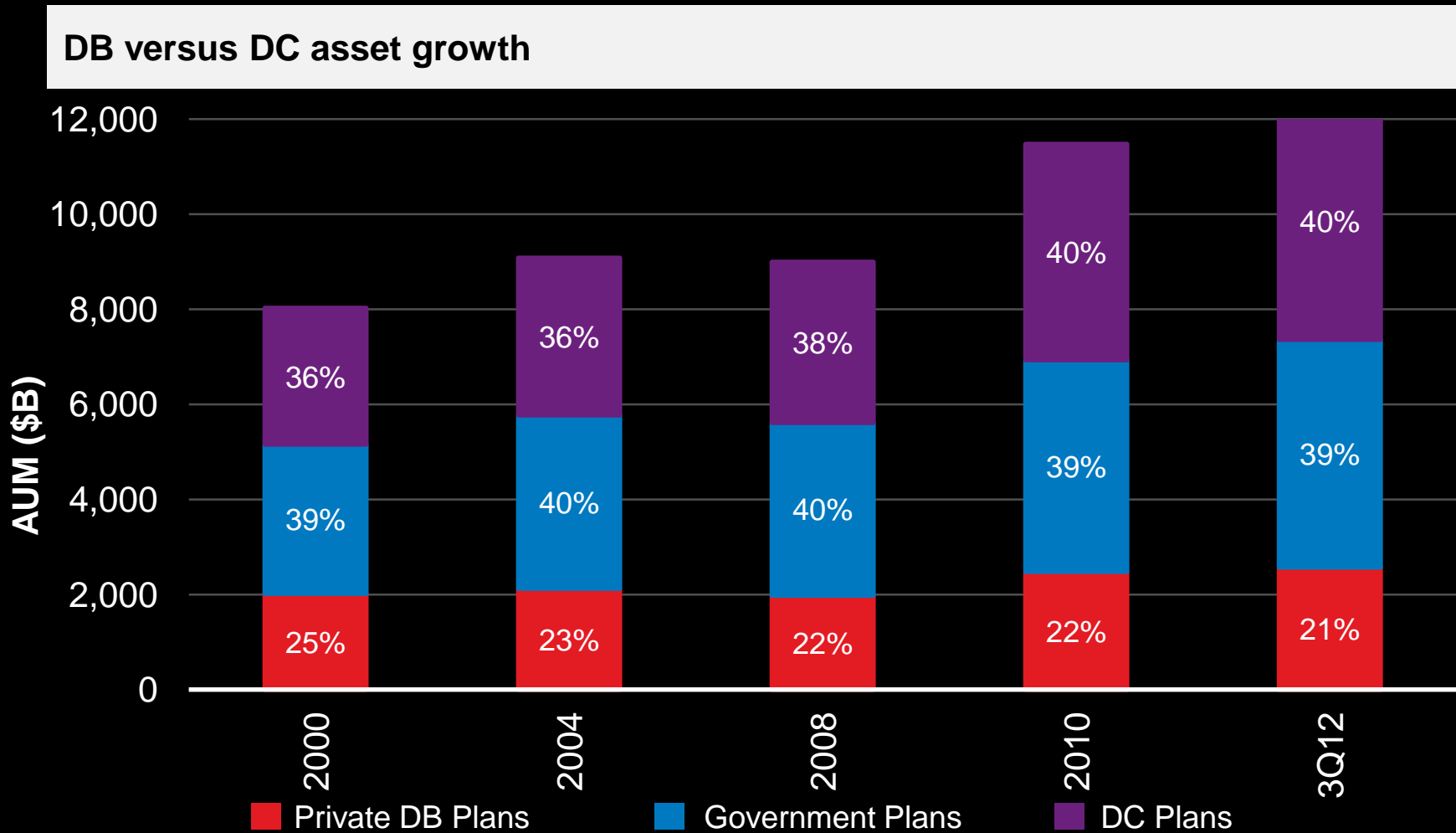
Global Pensions Asset Allocation¹



Global Hedge Fund AUM (\$B)²



Increasing focus on Defined Contribution plans



Source: ICI, Federal Reserve Board, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division. As of 30 September 2012. Does not include annuity reserves or IRAs.

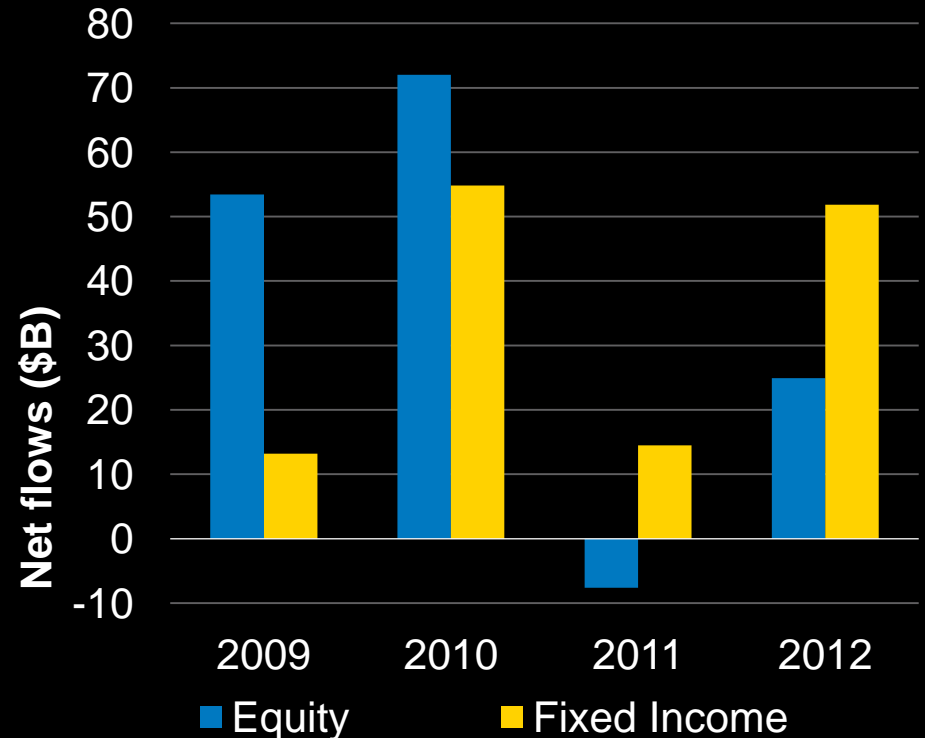
Increasing demand for emerging markets

Developed markets share of global AUM and profits will decrease as emerging markets continue to grow

EM institutional net flows



EM retail net flows

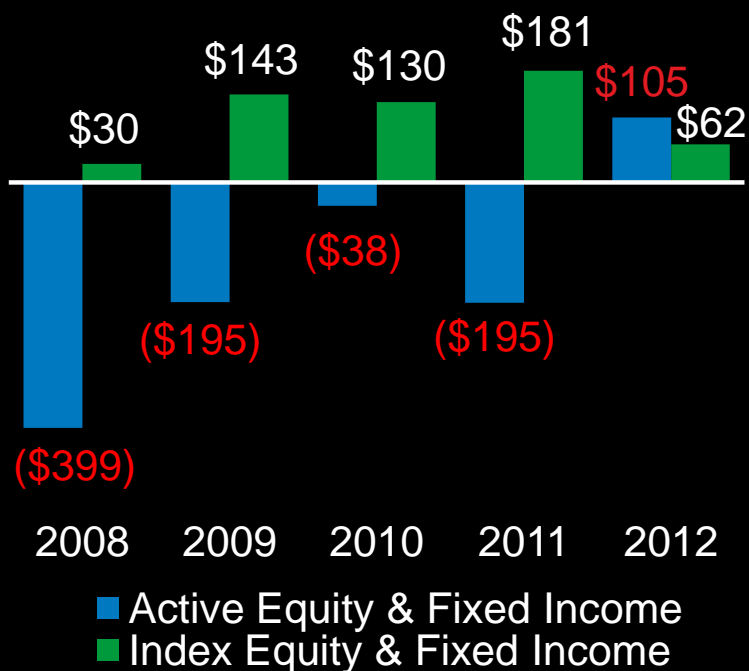


Source: SIMFund. As of 31 Dec 2012. Data excludes FoFs, MMFs and ETFs. Data includes US and international flows.

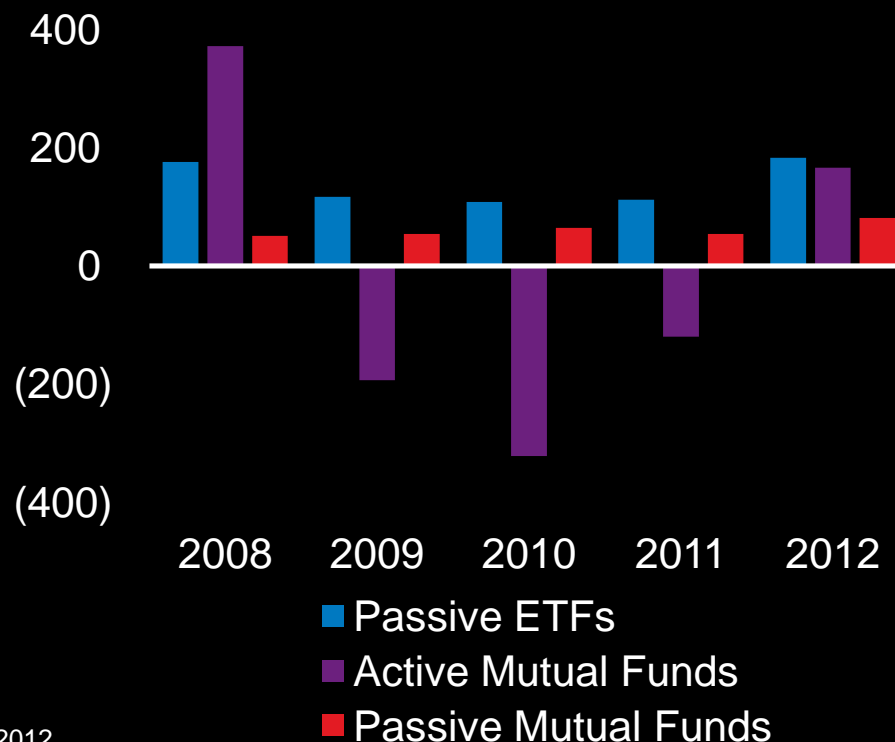
Passive demand continues to outpace active

The reasons are many: tactical allocation, performance, convenience, cost
ETF assets continue to grow

Global institutional net flows (\$B)¹



US mutual funds & ETF flows (\$B)²

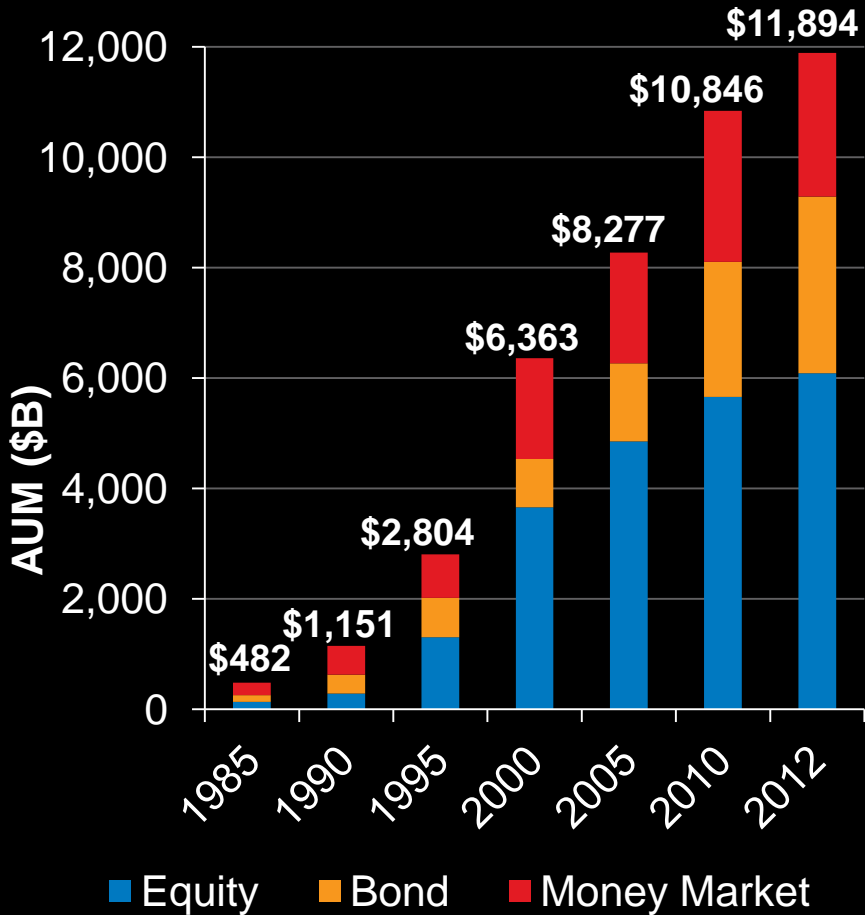


1) Global Institutional NNB: eVestment Alliance; data as of 31 December 2012

2) SimFund; data as of 31 December 2012

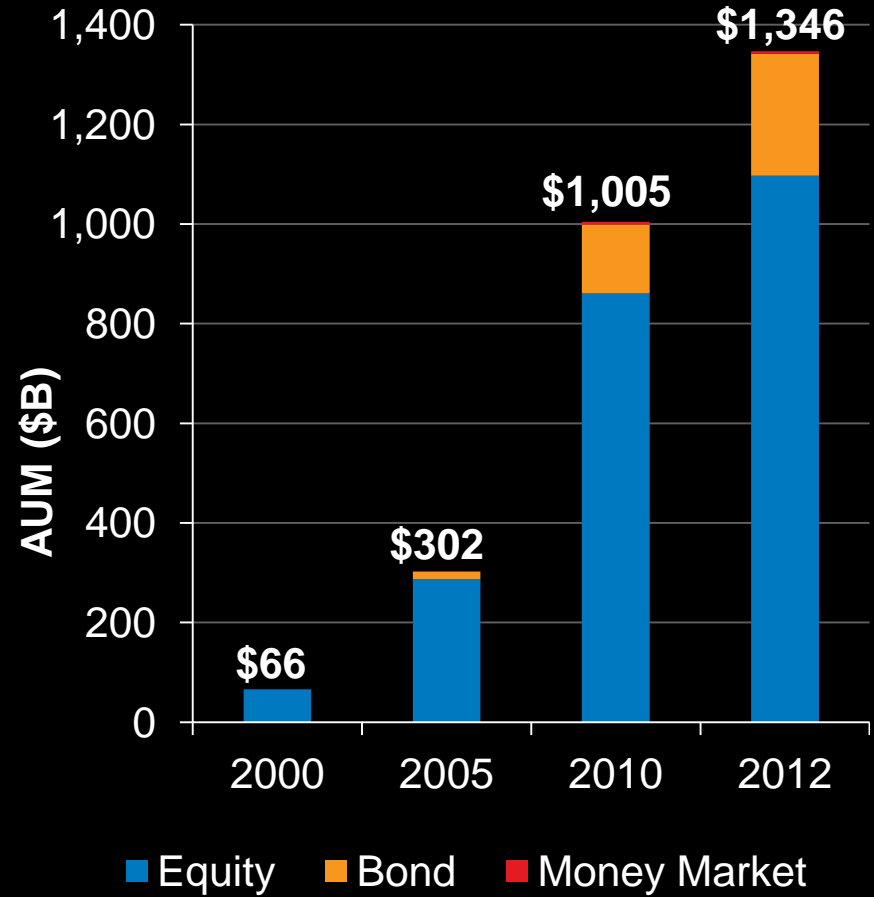
Mutual funds and ETFs meet client needs

US mutual funds



Source: Simfund

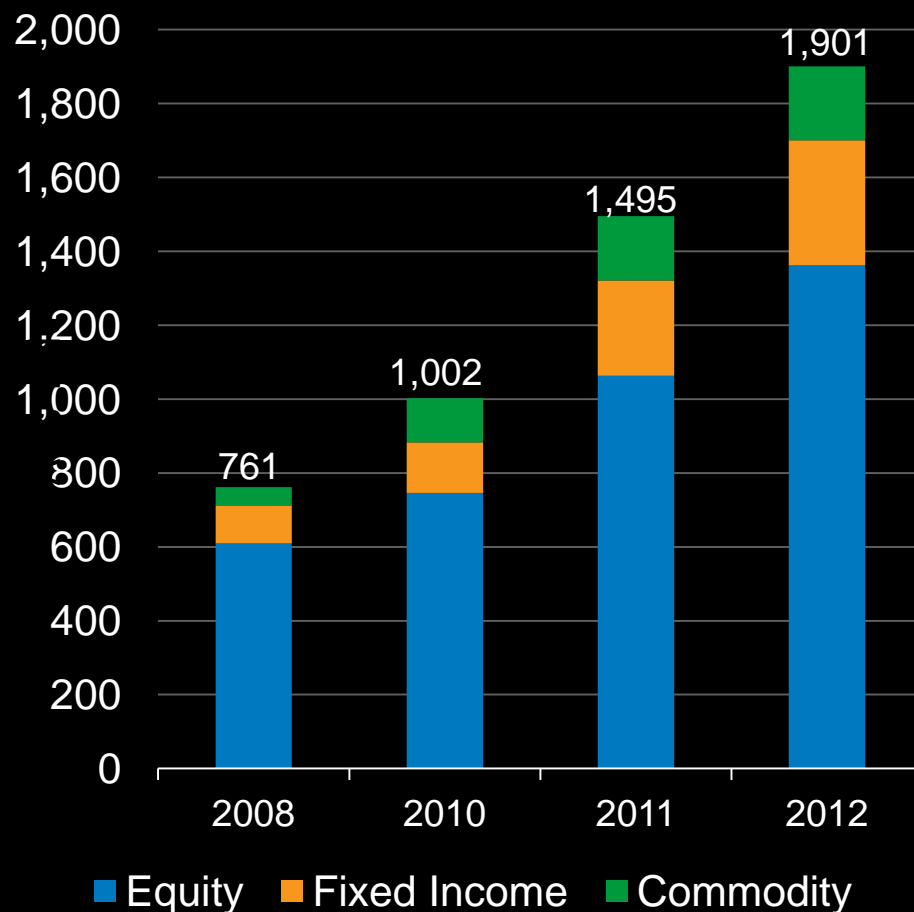
US ETFs



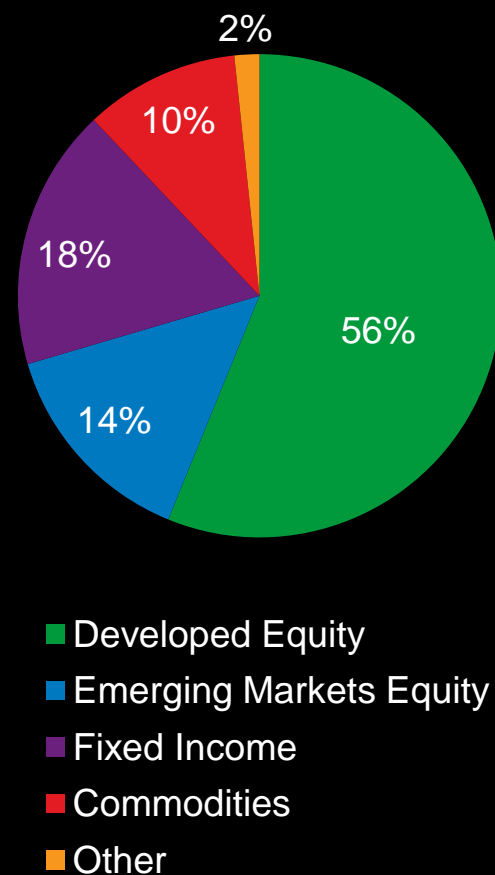
Source: Simfund

ETFs meet needs of clients globally

Global ETF asset growth (\$B)



Global ETF AUM snapshot



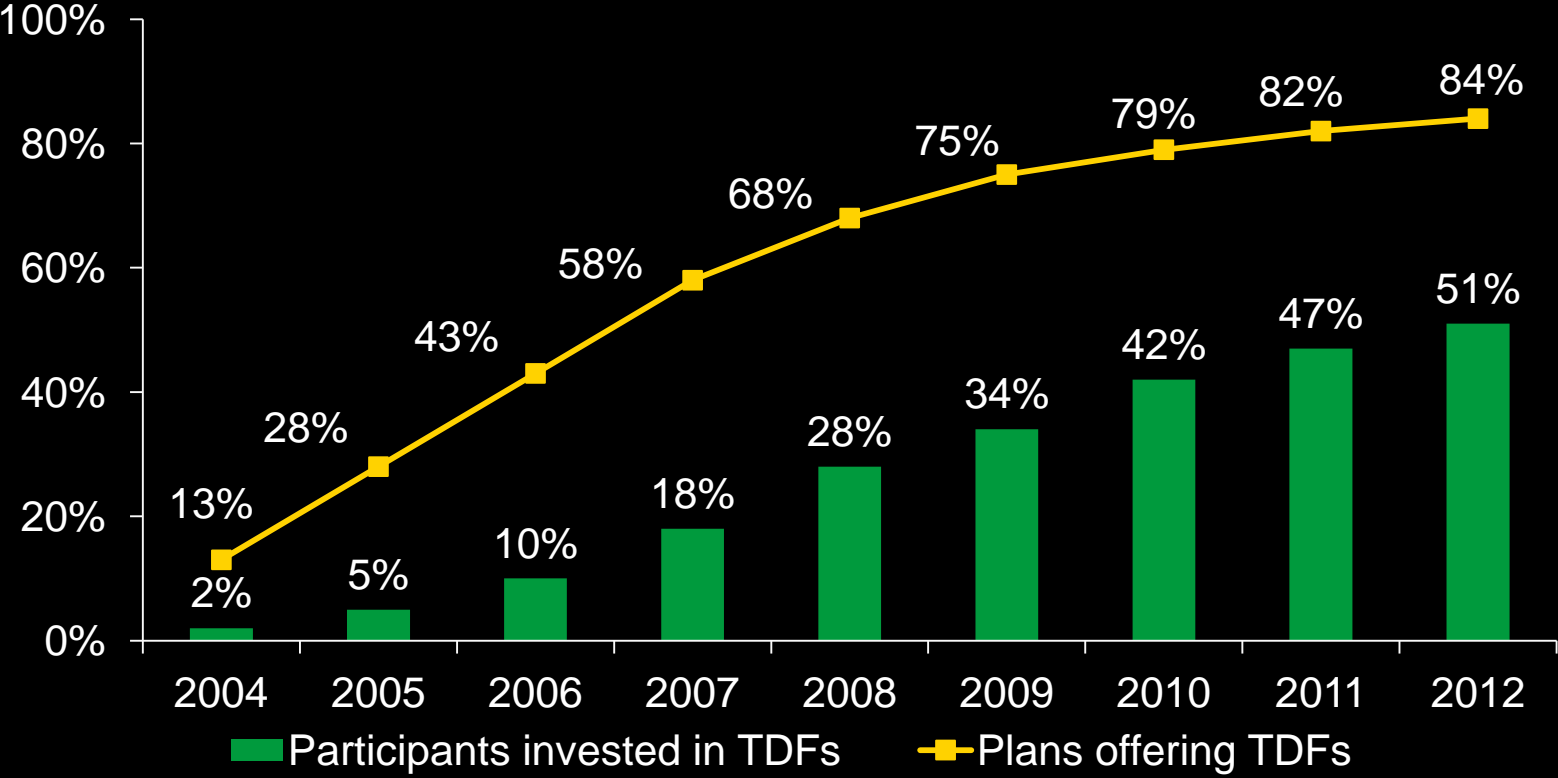
Source: Bloomberg
As of 31 December 2012
Only includes ETPs classified as equity, fixed income, or commodities.

Note: Data as of 31 December 2012
Source: BlackRock Investment Institute, Bloomberg, National Stock Exchange (NSX), Strategic Insights Simfund, Bank of Israel

Institutions increasingly seeking comprehensive investment solutions

Target date funds are among the fastest growing areas in asset management

Growth of US target date fund market



Source: "Target Date Fund Adoption in 2012". February 2013. Vanguard.

The Crisis and Its Implications

What Happened? What Have We Learned?

Mortgage underwriting standards lapsed

- ▶ Borrowers and originators “stretched”
- ▶ Loans were repackaged and resold multiple times
- ▶ Rating agencies were incentivized to rate transactions
- ▶ Investors were chasing yields
- ▶ “The Emperor has no clothes”

Back to basics

MBS Issuance (Billions)

Non-Agency			
	Jumbo	Alt-A	Subprime
2000	\$53.58	\$16.44	\$52.47
2001	\$142.20	\$11.37	\$87.05
2002	\$171.53	\$53.46	\$122.68
2003	\$237.45	\$74.15	\$194.96
2004	\$233.38	\$158.59	\$362.55
2005	\$280.70	\$332.32	\$465.04
2006	\$219.04	\$365.68	\$448.60
2007	\$180.46	\$249.61	\$201.54
2008	\$6.95	\$1.85	\$2.32
2009	\$5.16	\$0.00	\$0.43

Source: Inside MBS&ABS

What Happened? What Have We Learned?

Liquidity assumes functioning capital markets

- ▶ Less and less liquidity as confidence waned
- ▶ The Reserve Fund as “the tipping point”
- ▶ Investors scrambling to raise necessary cash

Rethinking “liquidity” at multiple levels

Major Universities' Corporate Bond Issuance During 2009

University	Bond Issuance
Yale	\$1 billion
Harvard*	\$500 million
Princeton	\$500 million
Johns Hopkins	\$400 million
Stanford	\$350 million
Cornell	\$250 million
Duke	\$250 million
Vanderbilt	\$250 million
Emory	\$250 million
Dartmouth	\$250 million
George Washington	\$200 million
Notre Dame	\$150 million
Amherst	\$100 million
Brown	\$100 million

**December 2008*

Source: BlackRock; As of 31 December 2009.

Issued under the 3A4-1 exemption and not subject to SEC registration.

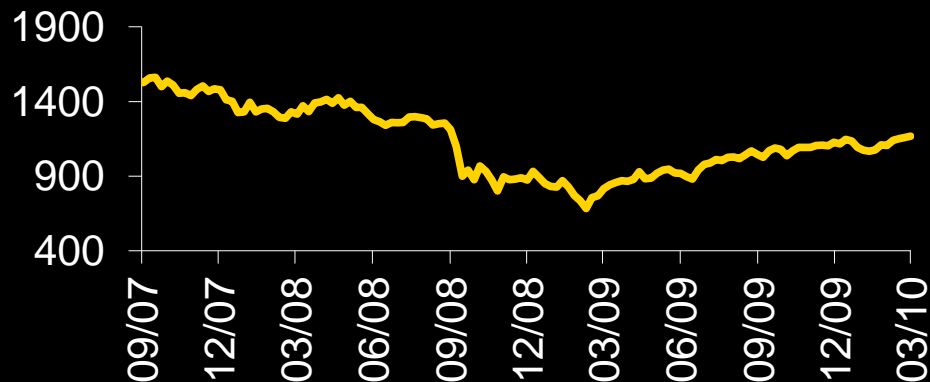
What Happened? What Have We Learned?

Leverage exacerbated the problem

- ▶ Everyone participated: banks, hedge funds, pension plans, endowments, insurance companies, individuals
- ▶ Financing terms mismatched to investments
- ▶ Sudden need to unwind investments quickly and simultaneously
- ▶ Deleveraging further depressed valuations

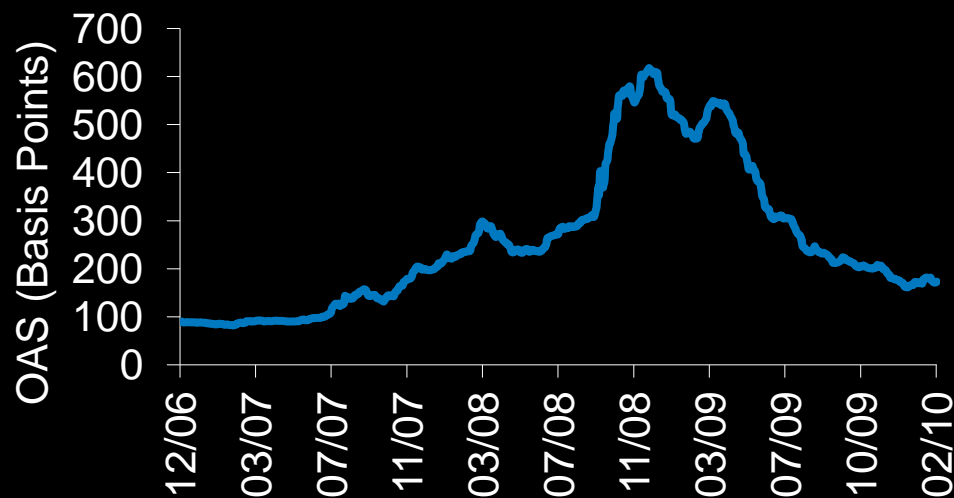
Importance of capital to weather a financial storm

S&P 500



Source: Barclays; Data as of 25 Feb 2010

Inv.-Grade Option-Adjusted Spread



Source: Barclays; Data as of 26 Feb 2010

What Happened? What Have We Learned?

Investors defrauded by unscrupulous players

- ▶ Madoff most brazen and notorious
- ▶ Numerous smaller Ponzi schemes uncovered
- ▶ Attractiveness of returns

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DECEMBER 12, 2008

Top Broker Accused of \$50 Billion Fraud

Sons Turned in Madoff After He Allegedly Told Them His Investment-Advisory Business for the Wealthy Was 'Giant Ponzi Scheme'

Importance of due diligence and oversight

Regulatory reform impacts asset managers
and their clients


Asset managers are fiduciaries...

Asset managers do

- Invest on behalf of clients, not with their own assets
- Rely on a generally stable fee-based income stream
- Receive regulatory oversight at both the manager and portfolio levels

Asset managers do not

- Invest with their own balance sheets (other than seed capital or small co-investments)
- Employ balance sheet leverage
- Guarantee investor principal



Asset management business model is fundamentally different than that of other financial institutions, such as:

- Commercial banks
- Investment banks
- Insurance companies
- Government-sponsored entities

...investing on behalf of clients

Representative clients include savers, innovators, and job creators

Institutional Clients

Public Funds

- California Public Employees' Retirement System
- Federal Retirement Thrift Investment Board
- North Carolina Retirement Systems

Taft-Hartley Funds

- Carpenters of Western Pennsylvania
- Midwest Operating Engineers
- United Mine Workers of America

Foundations / Endowments

- Army Air Force Exchange
- Boy Scouts of America
- The Metropolitan Museum of Art
- Texas A&M University

Corporations / Insurance

- AT&T Inc.
- The Boeing Company
- Coca-Cola Enterprises
- General Electric Company
- MetLife, Inc.

Retail clients

• Mutual Funds

• ETFs

• 529 Plans

• 401K Plans

* This list is a representative sampling of clients who allow their names to be publicly disclosed. Disclosure does not indicate approval or disapproval by such client of BlackRock or of the services provided.

Financial regulatory reform has broad impact

Active regulatory agenda in Americas, EMEA, and Pacific Basin

Growing list of studies, proposed rules, and final rules

In Dodd-Frank Act

- Derivatives
- Volcker Rule
- Private Funds
- Systemic Risk Oversight
- Resolution Authority
- Credit Rating Agencies
- Municipal Bonds
- Corporate Governance
- Federal Insurance Office
- Consumer Lending

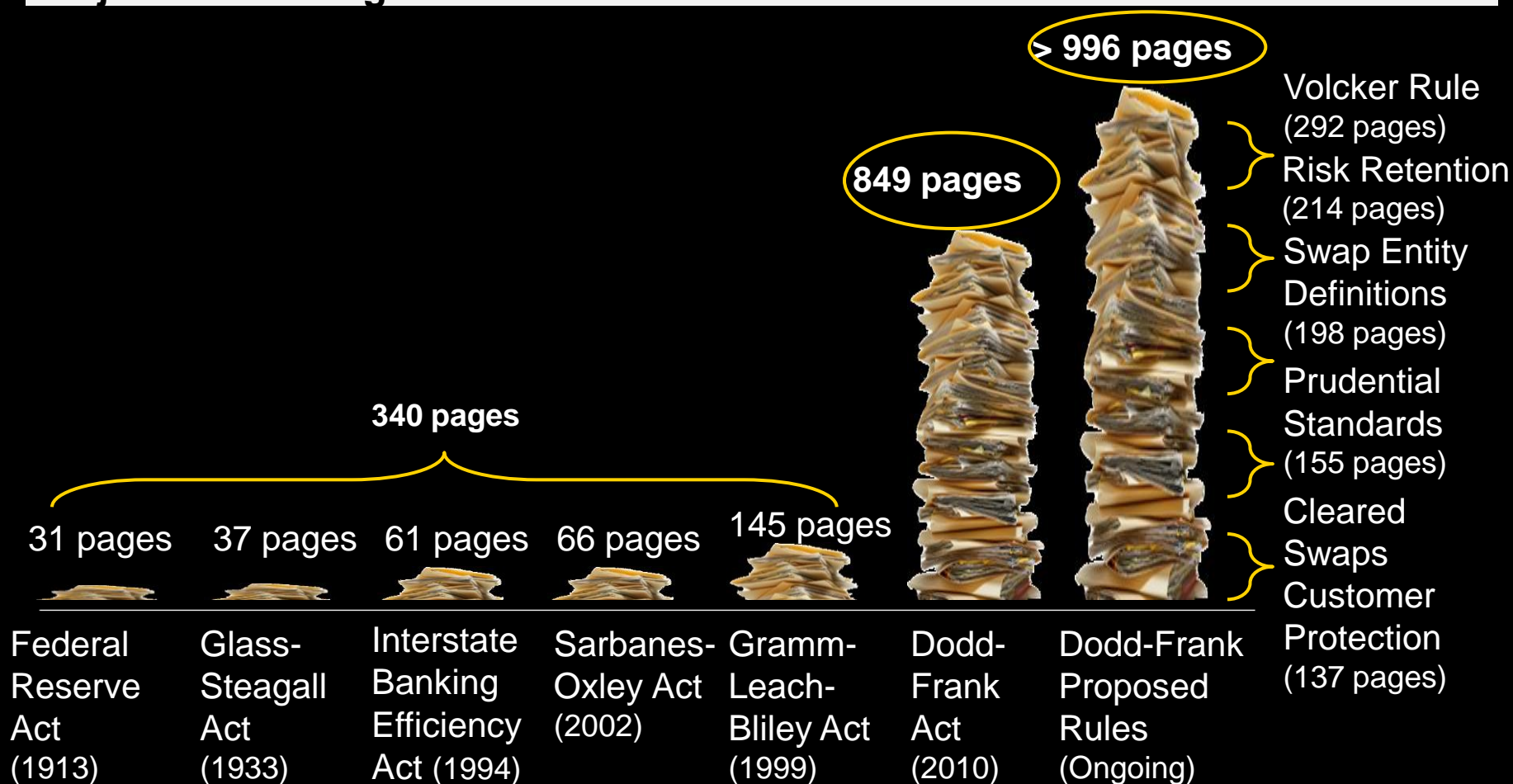
Beyond Dodd-Frank Act

- Sovereign Fiscal Issues
- Money Market Funds
- Securities Lending
- Housing / Securitization
- Retirement Issues
- Fiduciary Standards
- Distribution Models
- Exchange Traded Funds
- Financial Benchmarks
- Tax Issues
- Market Structure
- Stable Value Funds
- Target Date Funds
- Short Selling
- Commodities
- Accounting and Audit

























Putting Dodd-Frank in context

Dodd-Frank covers almost every aspect of financial regulation

Major financial legislation



Framework for U.S. Financial Reform

White House				Legislators			
President	Chief of Staff	OMB	NEC	Leadership			
							
Barack Obama	Denis McDonough	Jeffery Zients	Gene Sperling	Speaker John Boehner	Min. Leader Nancy Pelosi	Maj. Leader Harry Reid	Min. Leader Mitch McConnell
Regulators				Select Committees			
Treasury	Fed	SEC	CFTC	House Financial Services		Senate Banking	
							
Jack Lew	Ben Bernanke	Mary Jo White	Gary Gensler	Jeb Hensarling	Maxine Waters	Tim Johnson	Mike Crapo
FDIC	OCC	FHFA	DOL	House Ways & Means		Senate Agriculture	
							
Marty Gruenberg	Thomas Curry	Ed DeMarco (Acting)	Tom Perez (Nominated)	Dave Camp	Sander Levin	Debbie Stabenow	Pat Roberts

Money market mutual funds in U.S.

Major reform milestones		Broad spectrum of structural solutions	
Sep '08	Reserve Fund “broke the buck”	Status Quo	Rule 2a-7 enhancements are sufficient
Feb '10	SEC adopted Rule 2a-7 amendments; effective May 2010	Redemption Restrictions	To establish mechanism to reduce likelihood of a run
Nov '10	President’s Working Group on MMFs released report on reforms	NAV Buffer	Establish NAV buffer (or cushion) within individual MMF portfolios
Mar '11	SEC proposed rules to eliminate certain references to credit ratings in MMF forms	Subordinated Share Class	Create new share class to co-exist with common shares
May '11	SEC held “Money Market Funds and Systemic Risk” public roundtable	Special Purpose Entity	House buffer outside individual portfolio(s)
Aug '11	Bipartisan group from House Financial Services Committee sent letters to SEC expressing opposition to floating NAV	Hybrid Approach	Employ combination of prior options
Aug '12	SEC unable to come to a consensus	Floating NAV	Eliminate stable NAV and find new market equilibrium
Sep '12	Treasury Secretary Geithner letter urging SEC and industry to re-take up issue	Standby liquidity fees	Establish mandatory triggers and enable Boards to impose a redemption fee on funds
Nov '12	FSOC releases proposal for comment		
2013	SEC proposal expected 1H2013		

Money market funds play an important role in short-term financing markets

Over-the-Counter Derivatives

Central clearing

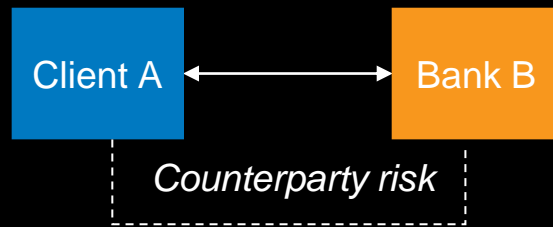
- ▶ Aims to reduce systemic risk associated with OTC derivatives, giving counterparties the ability to maintain existing positions and collateral in event of defaults

Dodd-Frank requires mandatory clearing for eligible swaps

- ▶ Nov. 2012: CFTC's final clearing determination for certain credit default swaps and interest rate swaps set into motion the phase-in for mandatory clearing

Old Model

Bilateral trade

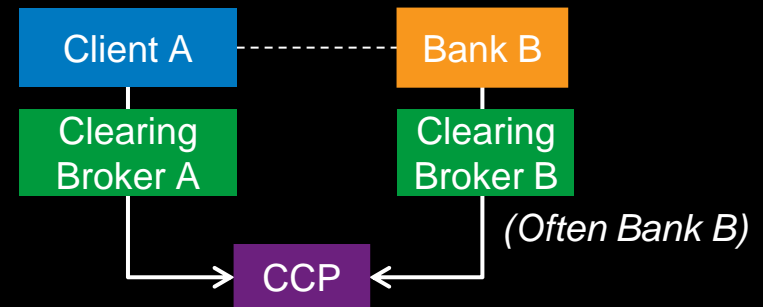


Implementation:

1. Client A initiates bilateral trade with Bank B
Both Client A and Bank B bear counterparty risk

New Model

Centrally cleared trade



Implementation:

1. Client A initiates bilateral trade with Bank B
2. Client A affirms trade to Clearing Broker A and Bank B affirms trade to Clearing Broker B
3. Once all parties have affirmed the trade, it is automatically routed to the CCP *Counterparty risk is to the CCP*

Private funds have new regulatory paradigm

Global impacts on registration, distribution, reporting, and potentially taxation

Registration

- Private funds must register (SEC)
 - Excludes venture capital
- Commodity pool operators must register (CFTC)

Distribution

- “Accredited investors”
 - New definition
 - Raises bar for HNW investors
- JOBS Act
 - Changes “solicitation” rules
 - Proposed rule lifts ban on advertising

Data Collection and Reporting

- Data collection to assess systemic risk
 - Form PF (SEC): “Private fund” data
 - Form CPO-PQR (CFTC): Commodity pool operator data
- Oct 2011: Joint rule approved
 - CFTC accepted Form PF as substitute for most aspects of Form CPO-PQR
 - Reduced duplication of data reporting
- Form PF went into effect on June 2012
- AIFMD in Europe also has many reporting requirements

Voice of investors must be heard

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How to Restore Confidence in the Financial Markets

by Laurence D. Fink

OPINION | October 8, 2012

Pensions & Investments

Retirement Savings Tax Incentives in Danger Post Election

By Hazel Bradford | November 12, 2012

FINANCIAL TIMES | January 9, 2011

Buyside seeks clearer view of OTC trading reconstruction

IGNITES

BlackRock's Plan to Reform U.S. Housing, Boost Economy

Barbara

Novick | August 16, 2012

THE WALL STREET JOURNAL

Regulators Seek Plan B on Money Funds

by Andrew Ackerman and Victoria McGrane

May 7, 2012

Bloomberg

BlackRock's Fink Says He's Disappointed with Budget Deal

2 January 2013 | Alexis Leonidis, Erik Schatzker & Scarlet Fu

IGNITES Asia

By Rita Taagas De Ramos | January 21, 2013

US Issues Final FATCA Rules, Massive Compliance Underway

Crafting sound, pro-growth policy is the goal...

Benefits of more robust regulatory regime

Reduced systemic risk

Enhanced investor protection

Better market access

Increased market transparency

Responsible capital market growth



Constructive outcomes to date

Risk reduction within money market fund industry

Improved risk management for swaps dealers

Enhanced protection for swaps customers

Streamlining of private fund reporting requirements

...but unintended consequences must be considered

Rulemaking challenges

Volume of rules

Complexity of issues

Rule sequencing

Domestic (inter-agency) harmonization

International coordination

Cost / benefit analysis

Potential unintended consequences

Reduced private sector job growth

Restricted market liquidity

Reduced market transparency

Obstructed capital formation

Diminished investor choice

Reduced US global competitiveness

Technology drives disruptive innovation



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