

New direction in index investing: Thematic, Smart Beta and Sustainable ETFs

Marco Corsi, Head of iShares Product Research and Innovation EMEA

1989 ...



Source: Bundesarchiv, Bild 183-1989

1989...



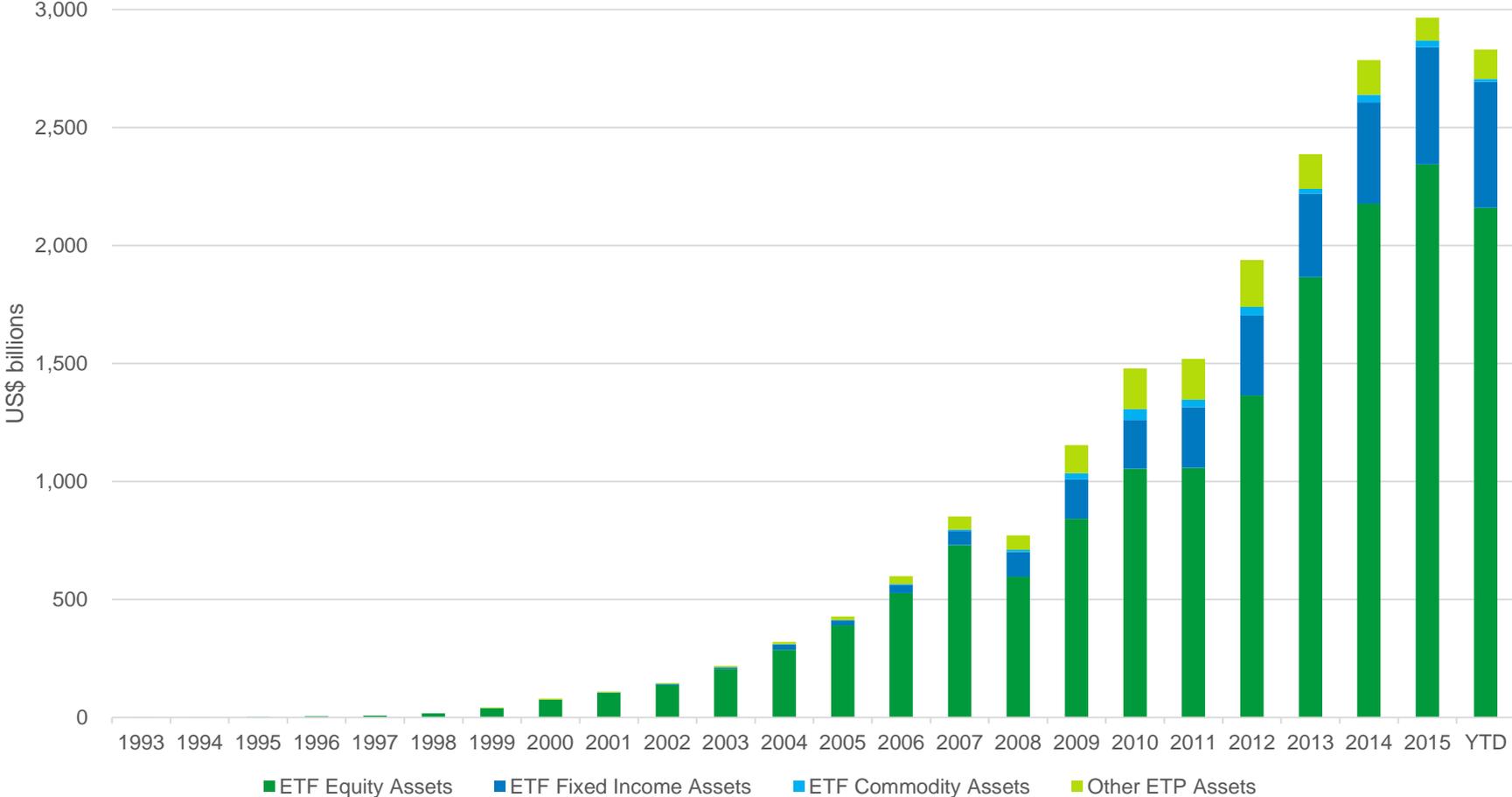
Source: NASA

1989...



Source: Evan-Amos

Global ETF industry growth



Source: BlackRock ETP Landscape as of March 2016.

Three streams of product innovation

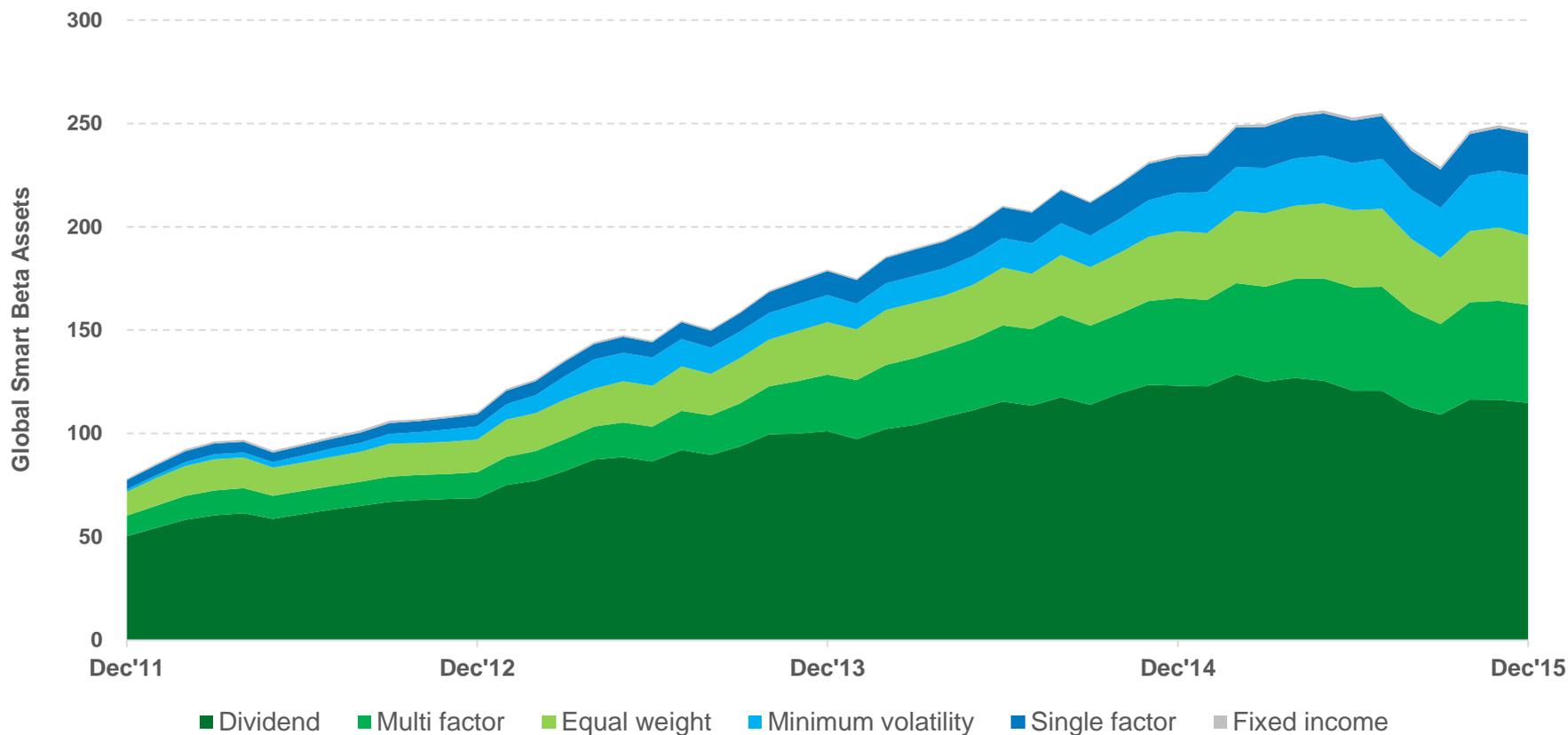
1 Smart Beta Investing

2 ESG, sustainable and impact Investing

3 Thematic Investing

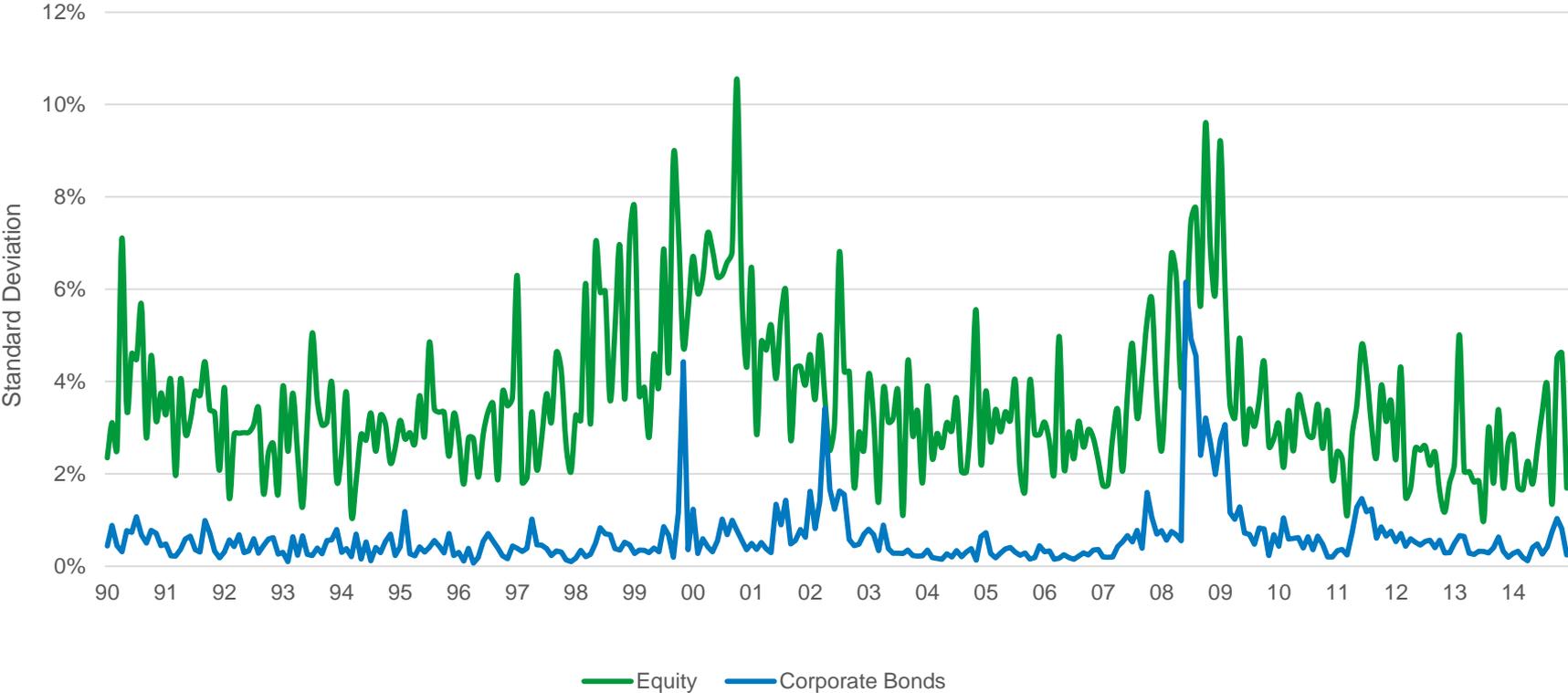
1 Smart Beta

Smart Beta ETP landscape today



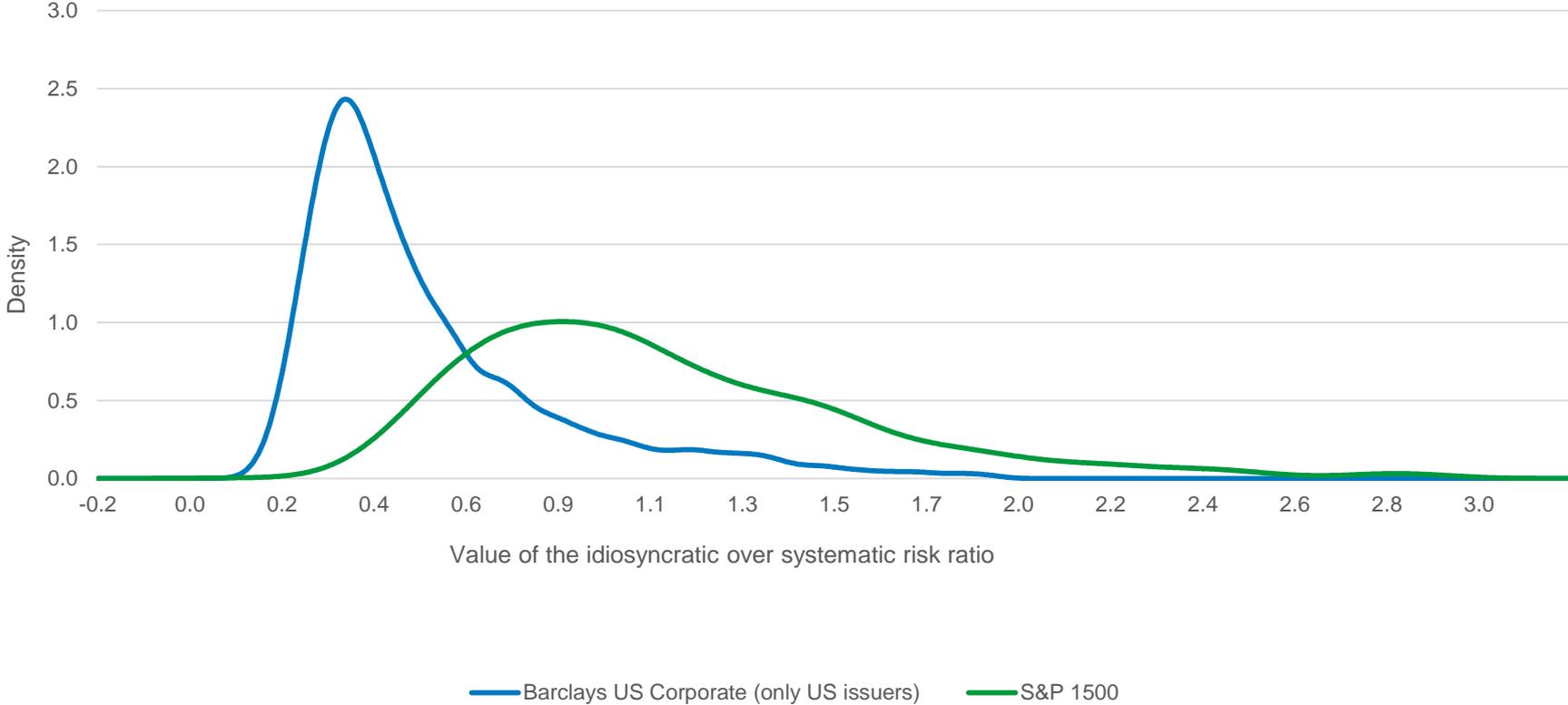
Source: BlackRock, SimFund. ETP flows as of December 2015.

Fixed income versus equities - 1



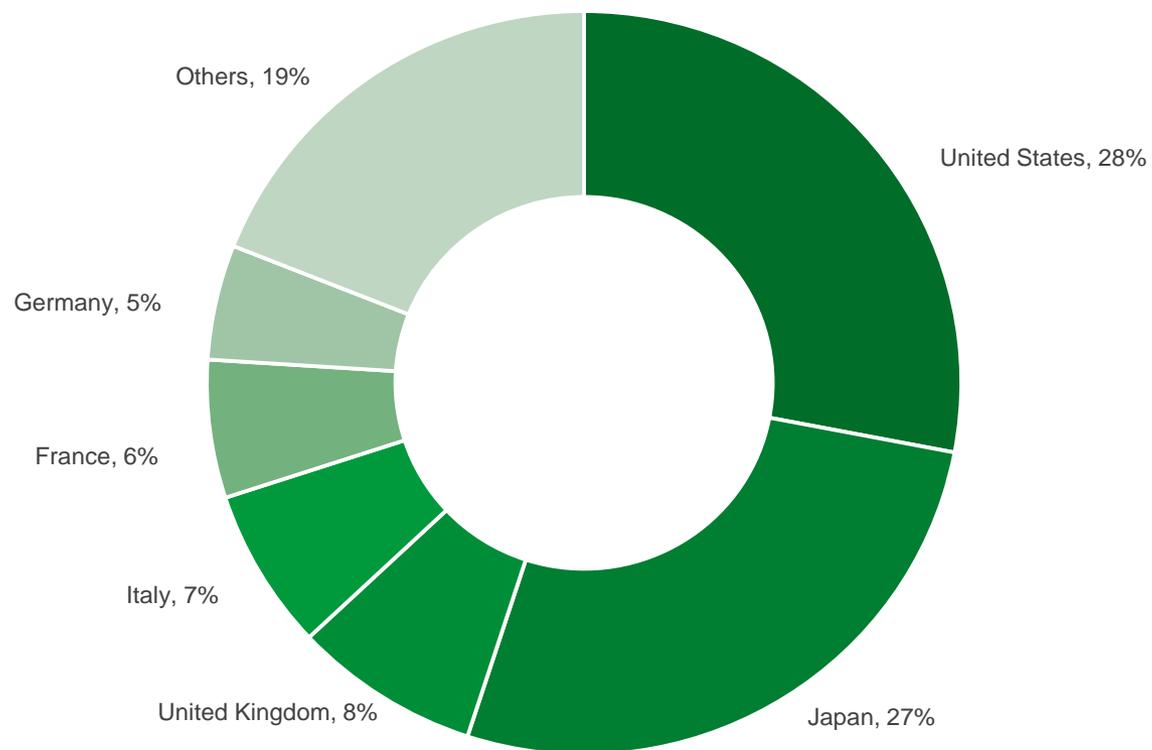
Source: Barclays and Bloomberg as of April 2015.

Fixed income versus equities - 2



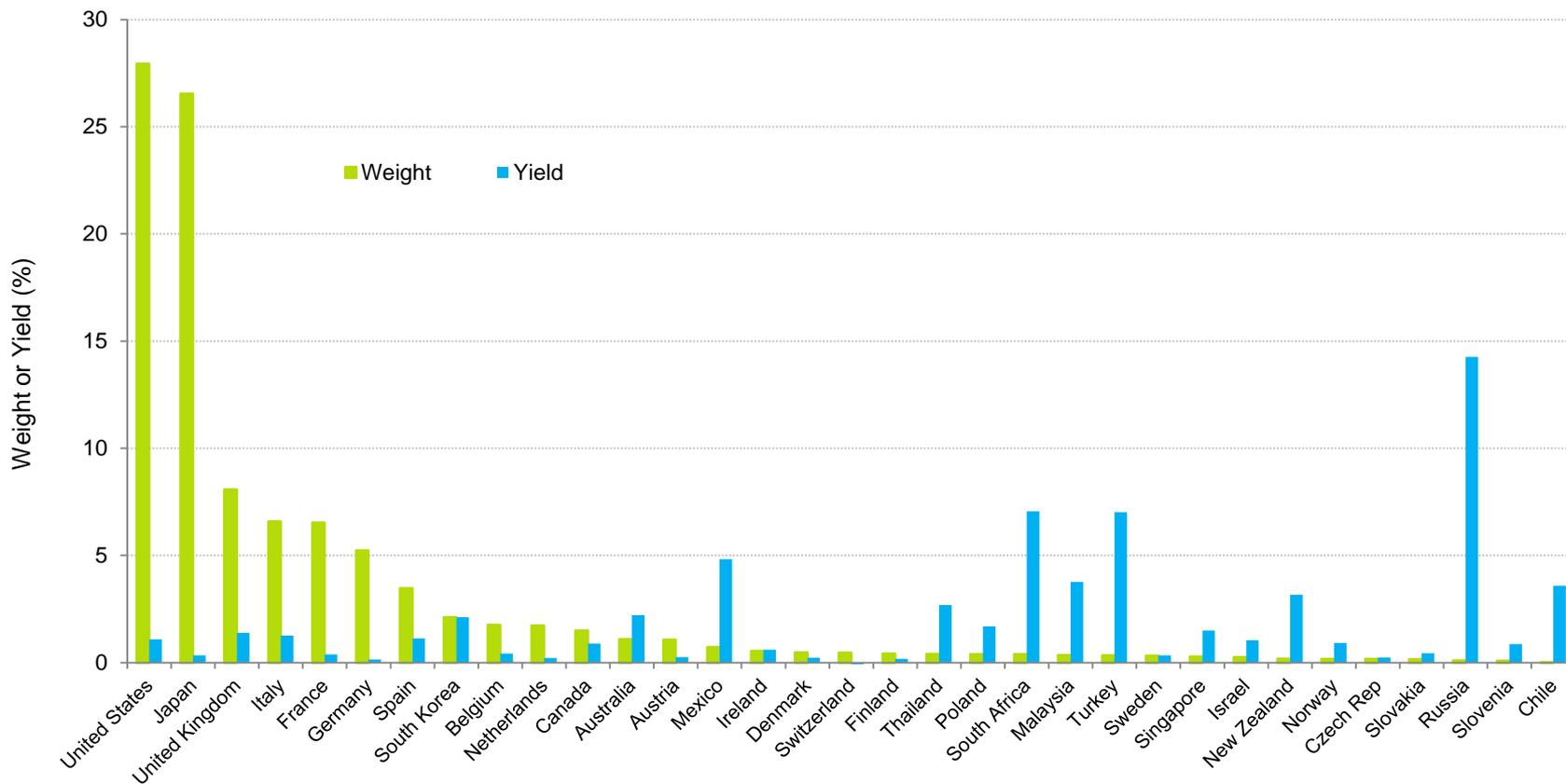
Source: Barclays, Bloomberg and Blackrock as of April 2015.

Traditional benchmarks inefficiencies - Lack of regional diversification



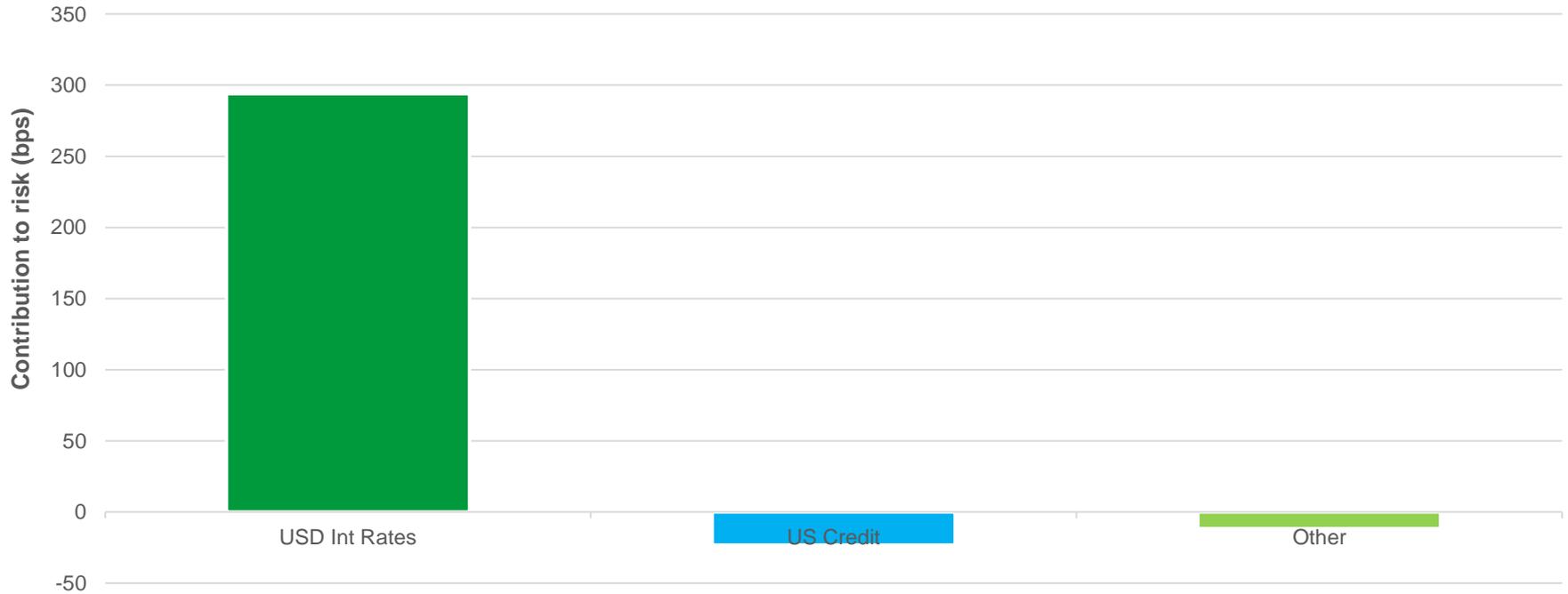
Source: Barclays as of April 2015.

Traditional benchmarks inefficiencies - Lack of relationship between benchmark weight and YTM



Source: Barclays as of April 2015.

Traditional benchmarks inefficiencies: no risk diversification

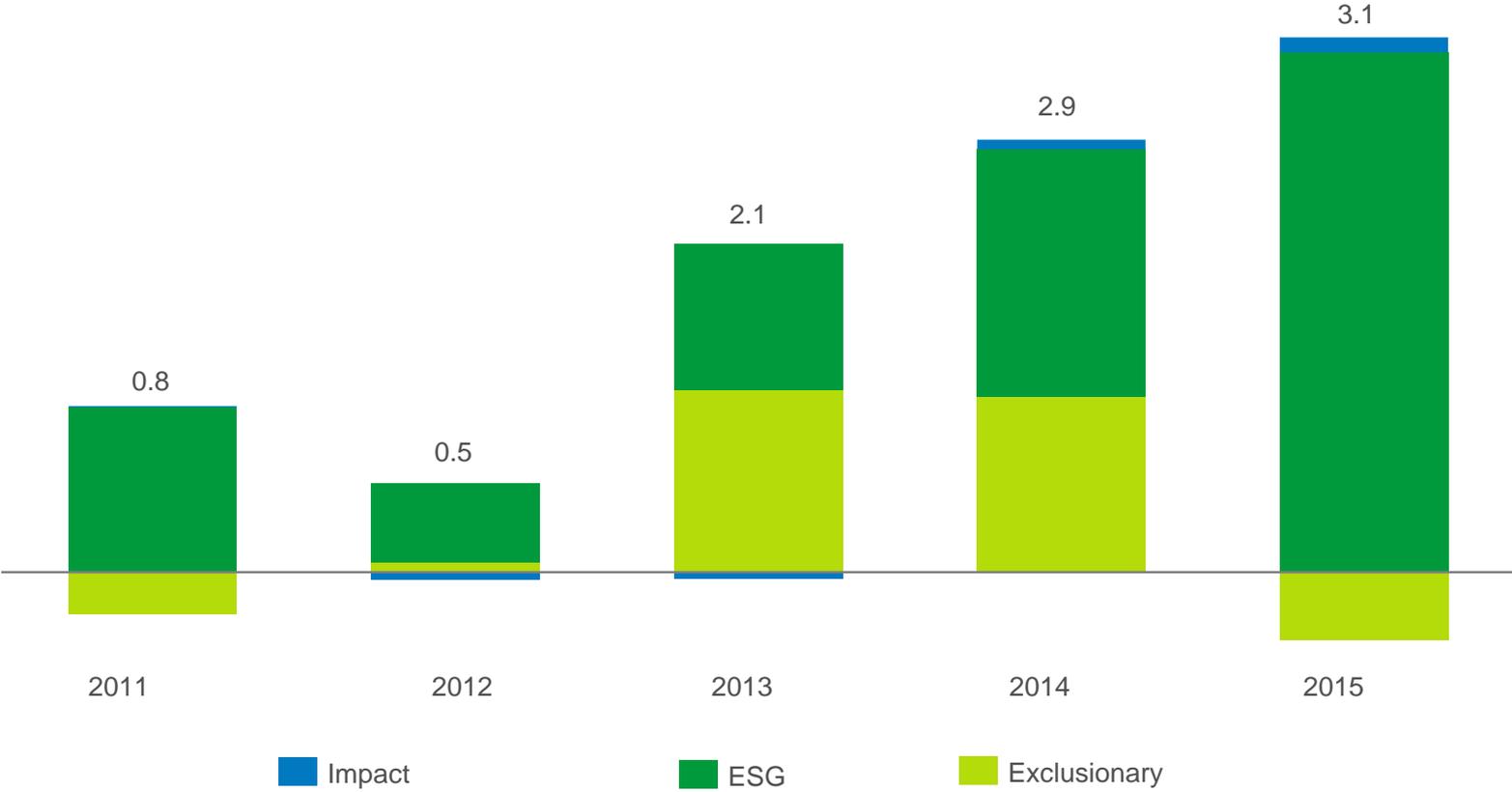


Source: Barclays and Blackrock as of May 2016.

2

Sustainable investing

EMEA sustainable ETFs market is growing



Source: Morningstar data, as of end of 2015

Factor strategies with ESG awareness

- ▶ ESG Best-in-Class plus factor tilts:

Screening on ESG and only using top quarter/third/half the remaining universe will be weighted based on the stocks style factor exposure

- ▶ Factor Optimisation with ESG constraints:

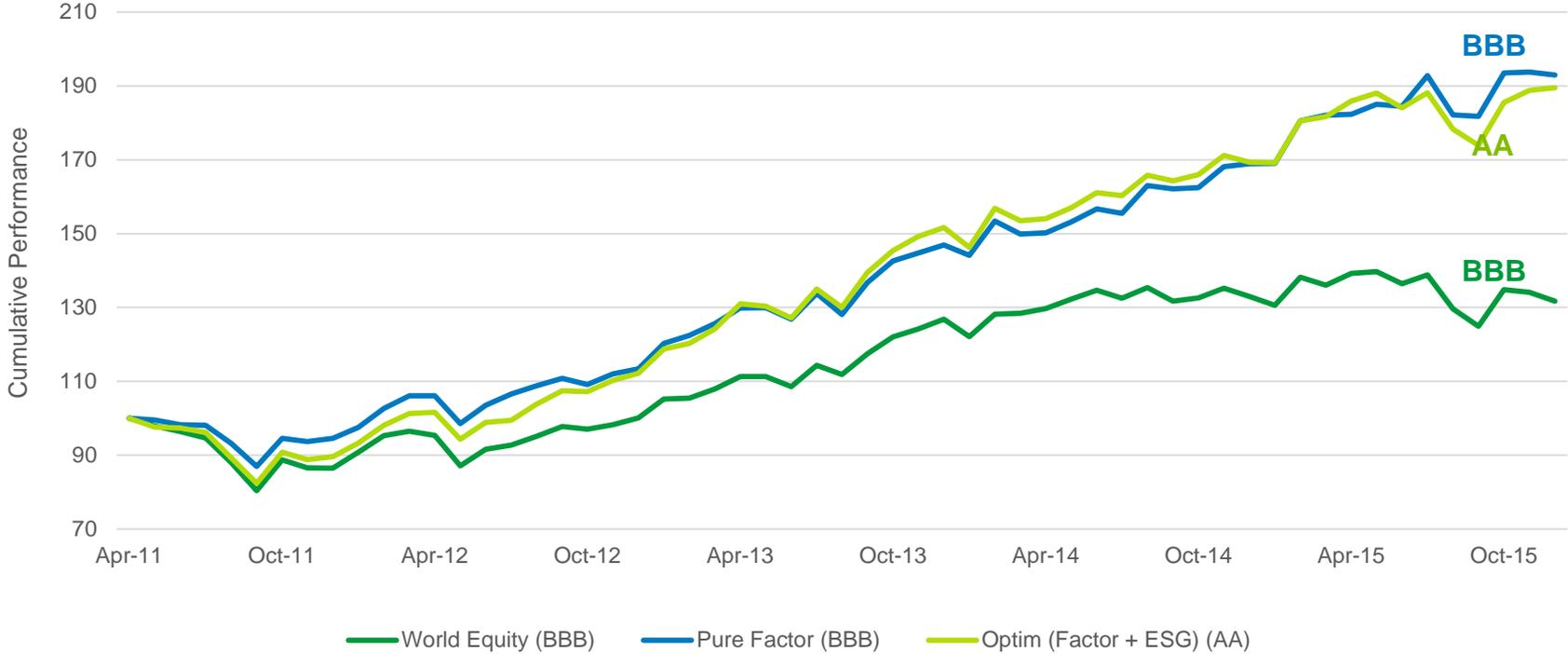
Using optimisation a portfolio will be constructed that maximises its style factor exposure while meeting minimum portfolio ESG requirements and being neutral on other style factors

- ▶ Factor Optimisation using a composite alpha factor of style factor + ESG factor:

Using optimisation a portfolio will be constructed that maximises a composite of style factor plus ESG while being neutral on other style factors

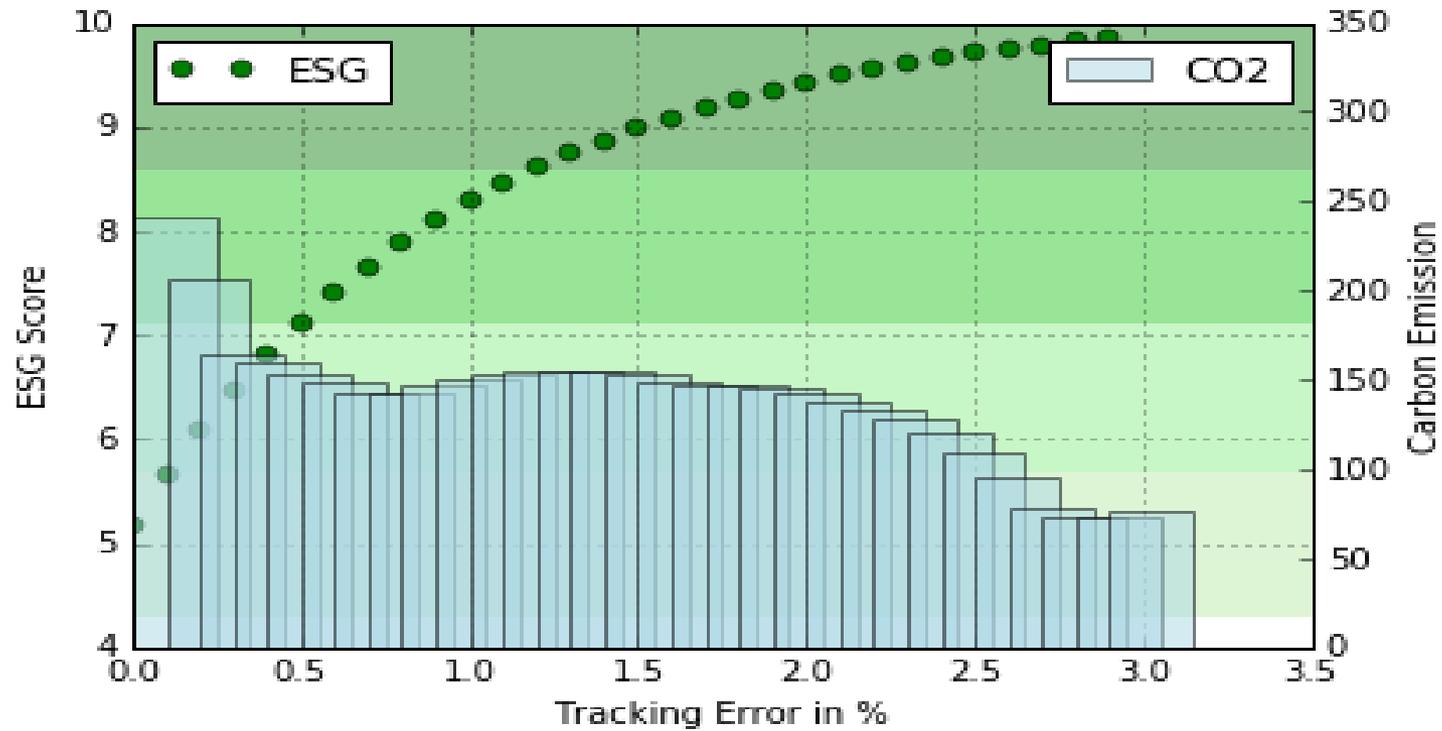
- ▶ Low tracking error optimisation to an existing factor fund while maximising ESG

Example for the momentum factor



Source: Blackrock, Bloomberg, MSCI as of May 2016.

ESG vs. Carbon



Source: MSCI and Blackrock as of January 2016

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Thematic Investing

Thematic strategies to capture megatrends

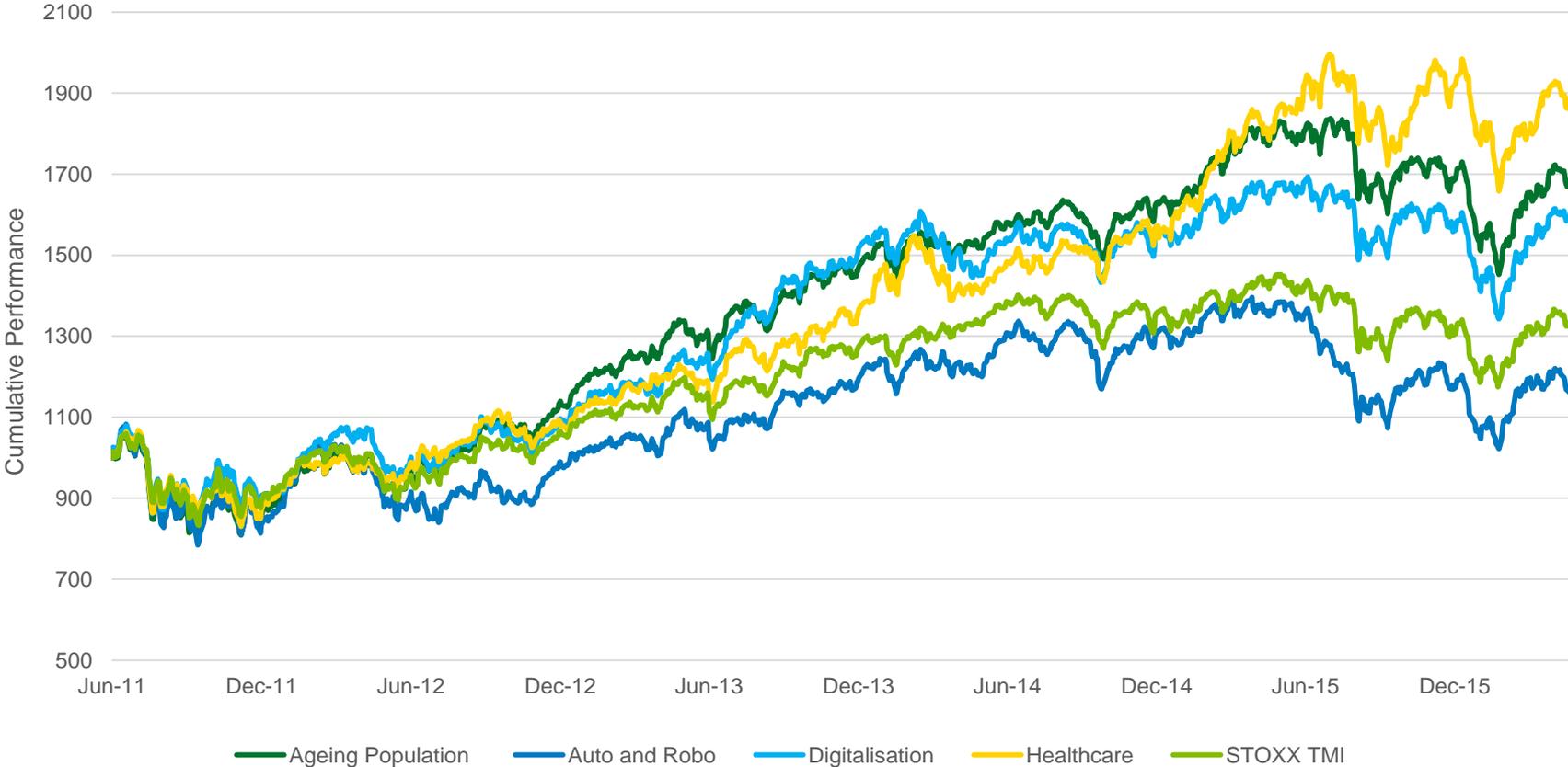
Ageing
Population

Healthcare
Innovation

Digitalisation

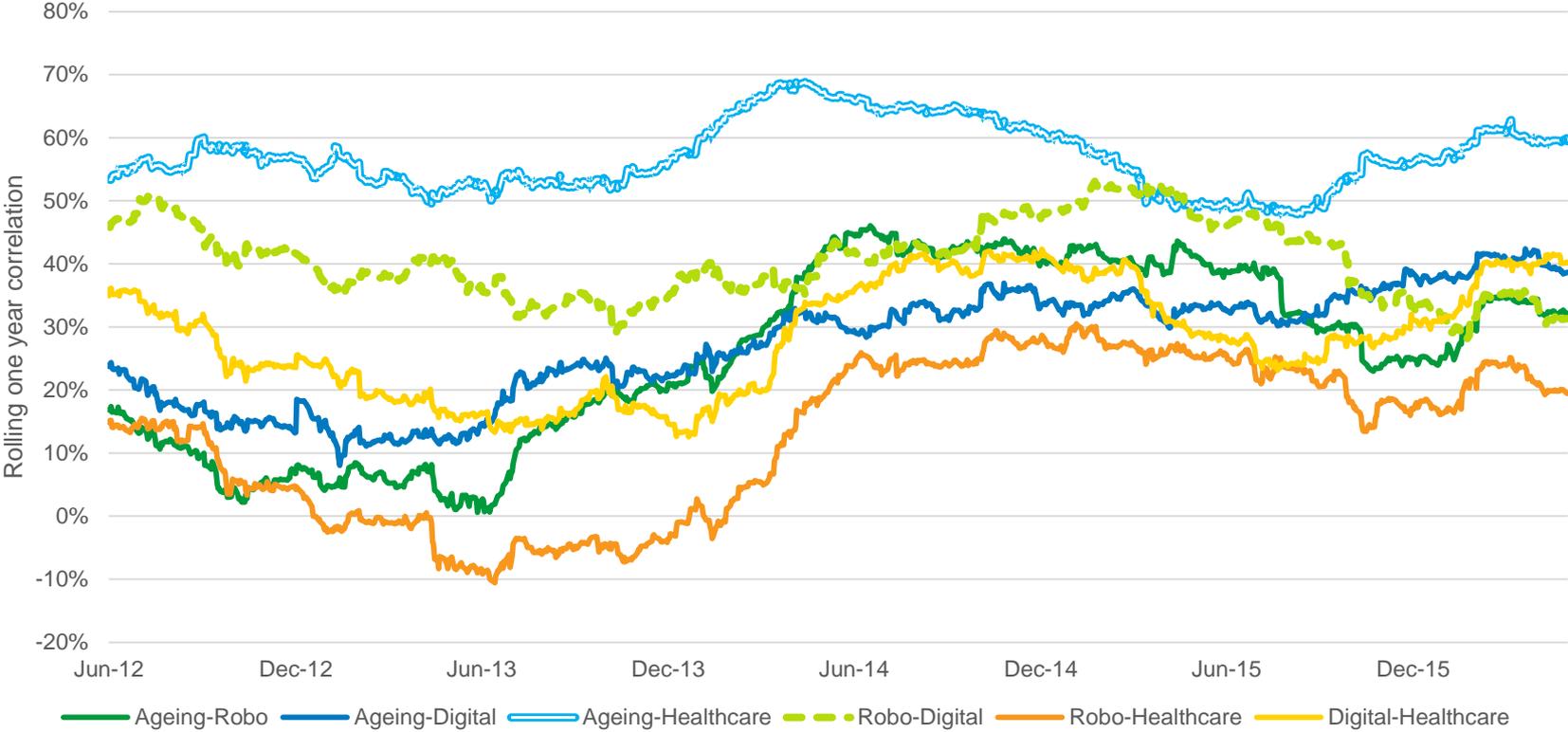
Automation
& Robotics

Simulated performance



Source: Blackrock and STOXX as of May 2016.

Premium rolling 1 year correlation



Source: Blackrock and STOXX as of May 2016.

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