2019 Global Institutional Rebalancing

January 2019

BLACKROCK®

Global Executive Summary

- **230 institutional clients, representing over $7* trillion in investible assets**, participated in our annual institutional client rebalancing survey. Clients were surveyed over a four week period in November and early December to explore how they plan to rebalance assets in 2019.
- **Globally, investors are concerned that the economic cycle is turning.** 56% of clients stated that the possibility of the cycle turning is either the first (37%) or second (19%) most important macro risk influencing their rebalancing and asset allocation plans.
- Concern about the economic cycle is reflected in the fact that **51% of clients intend to decrease their allocation to equities**. This shift is accelerating as 35% planned reductions in 2018 and 29% in 2017. Heading into 2019, this trend is most pronounced in the U.S. and Canada, where 68% of clients plan to reduce equity allocations, versus just 27% in Continental Europe.
- While the global trend is to reduce equity exposures, **within equity portfolios, institutions are shifting their focus and priorities**. Respondents are most focused on reducing public market risk within the equity portfolio (41% cited this as one of their top two priorities), but around one-third plan to increase allocations to alpha-seeking strategies (+32%). An increasing emphasis on ESG and impact investing was cited by 27% of respondents, largely driven by EMEA clients (+55%).
- **A significant portion of institutions intend to increase their exposure private markets:** real assets (+54%), private equity (+47%) and real estate (+40%). This continues a multi-year structural trend of clients reallocating risk in search of uncorrelated sources of return.

As of December 2018. For illustrative purposes only. This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise of future performance. No analysis of their suitability was conducted and no statement of opinion in relation to their suitability is provided
*Clients were asked to identify their investible assets in US Dollars

Global Executive Summary

- **Macro and market influences shaping asset allocation decisions reflect key regional differences.** A majority (52%) of U.S. and Canada respondents are concerned about rising U.S. interest rates, while 46% of EMEA institutions and 40% of Asia Pacific institutions cited geopolitical instability/trade tensions as one of the top two macro risks (vs. only 20% of U.S. and Canada clients).

- **Within fixed income, the shift to private credit continues** as 56% of global respondents plan to increase their allocations. Other fixed income focus areas for 2019 likely reflect relative value opportunities in the current market: short duration (+30%); securitized assets (+27%); emerging markets (+29%).

- **The majority of clients plan to leave cash unchanged,** though there is a slight trend toward increasing cash balances (20% increasing versus 15% decreasing). Regional differences are stark – in Asia Pacific 33% plan to increase cash and in Continental Europe 27% plan to reduce.

- Corporate pensions globally continue to de-risk; **60% intend to decrease equity allocations and 48% plan to increase fixed income.** This trend is most pronounced in the US and Canada (77% intend to decrease equities and 67% to increase fixed income. Corporate pensions globally also plan illiquid increases — real assets (+47%), real estate (+35%) and private equity (+36%) — likely to bolster their growth portfolios.

- **Insurers continue to seek alternative sources of income by increasing allocations to illiquid assets and credit strategies;** 66% intend to increase allocations to real assets. Within fixed income, 72% plan to increase their allocations to private credit and 41% plan to increase securitized assets.

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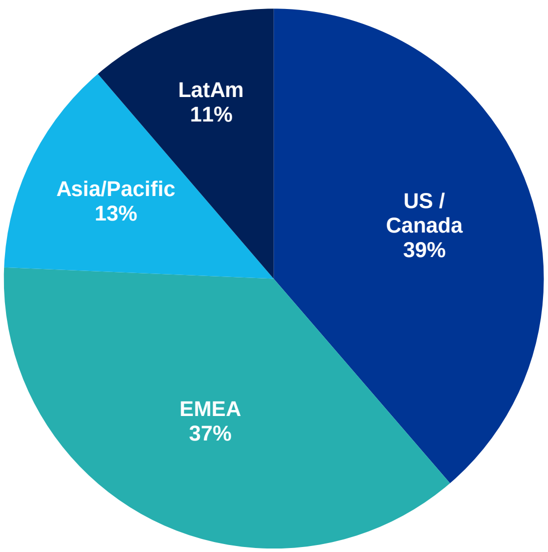
Global Summary

Global Institutional Rebalancing Snapshot

230 survey respondents representing **$7T** in assets*

Clients were surveyed over a four week period until 6th December 2018 to explore how they plan to rebalance assets in 2019

Total responses by region (%)



Type of client**	% of respondents
Corporate pension	33%
Public/ Government pension	28%
Insurance company	20%
Taft-Hartley/ Unions/ Other	6%
Investment manager	5%
Endowment, Foundation or Charity	3%
Single Family Office /Multi-Family Office	3%
Official Institution	2%

Source: As of December 2018; Survey conducted by Illuminas, on behalf of BlackRock; data based on survey results.
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*Clients were asked to identify their investible assets in US Dollars
**Iberia counted in both LatAm and Continental Europe figures
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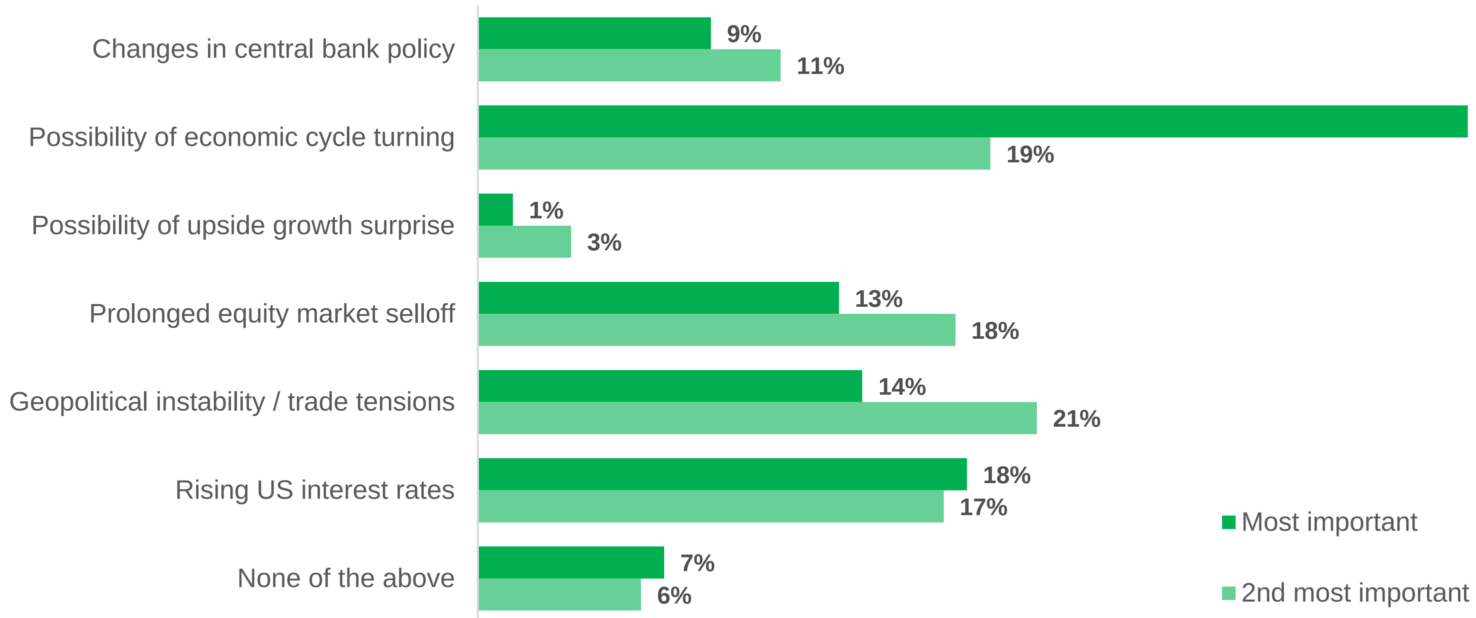
A majority of institutions cited the possibility of the economic cycle turning as a key driver shaping rebalancing and asset allocation decisions in 2019

Which of the following key macro or market themes or risks do you believe will be most important in influencing your rebalancing and asset allocation decisions in 2019?

Macro / Market Influencers
(% most / 2nd most important)



Base sizes: Total (230). Note that Most Important should sum to 100 =/- 2% due to rounding errors. 2nd Most Important may not sum to 100% if clients chose not to provide a response

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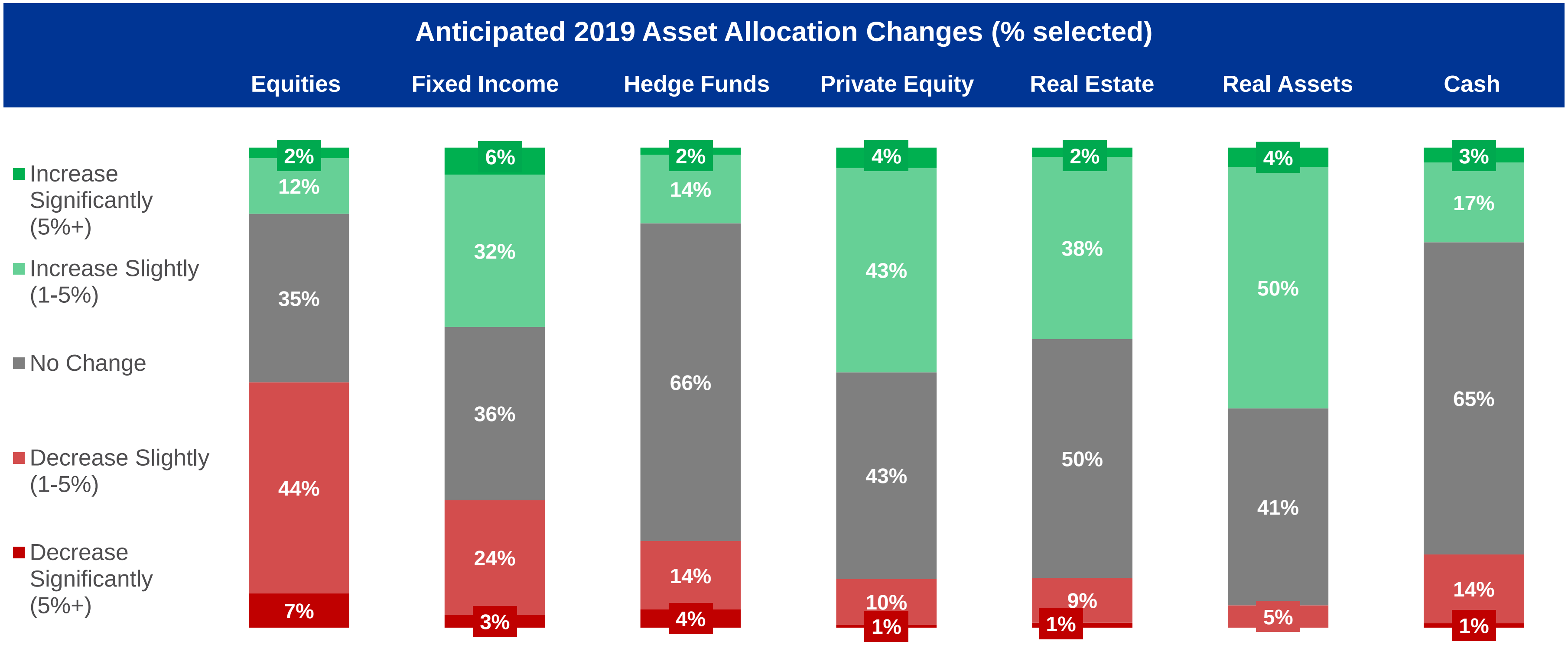
In 2019, institutions anticipate moving out of equities and into alternatives—led by real assets, private equity and real estate

GLOBAL CLIENT BASE OVERALL PORTFOLIO ALLOCATIONS:

In 2019, how do you anticipate changing your allocations to the following?



Net Change	Equities	Fixed Income	Hedge Funds	Private Equity	Real Estate	Real Assets	Cash
Net Change	-37%	+11%	-2%	+37%	+30%	+50%	+4%

Net percentages represent a net percentage intending to increase or decrease allocations to each asset class. (Calculation: % of firms intending to increase - % of firms intending to decrease) Base sizes: Total (230); Equities (225); Fixed Income (230); Hedge Funds (133); Private equity (188); Real Estate (203); Real Assets (173); Cash (223)

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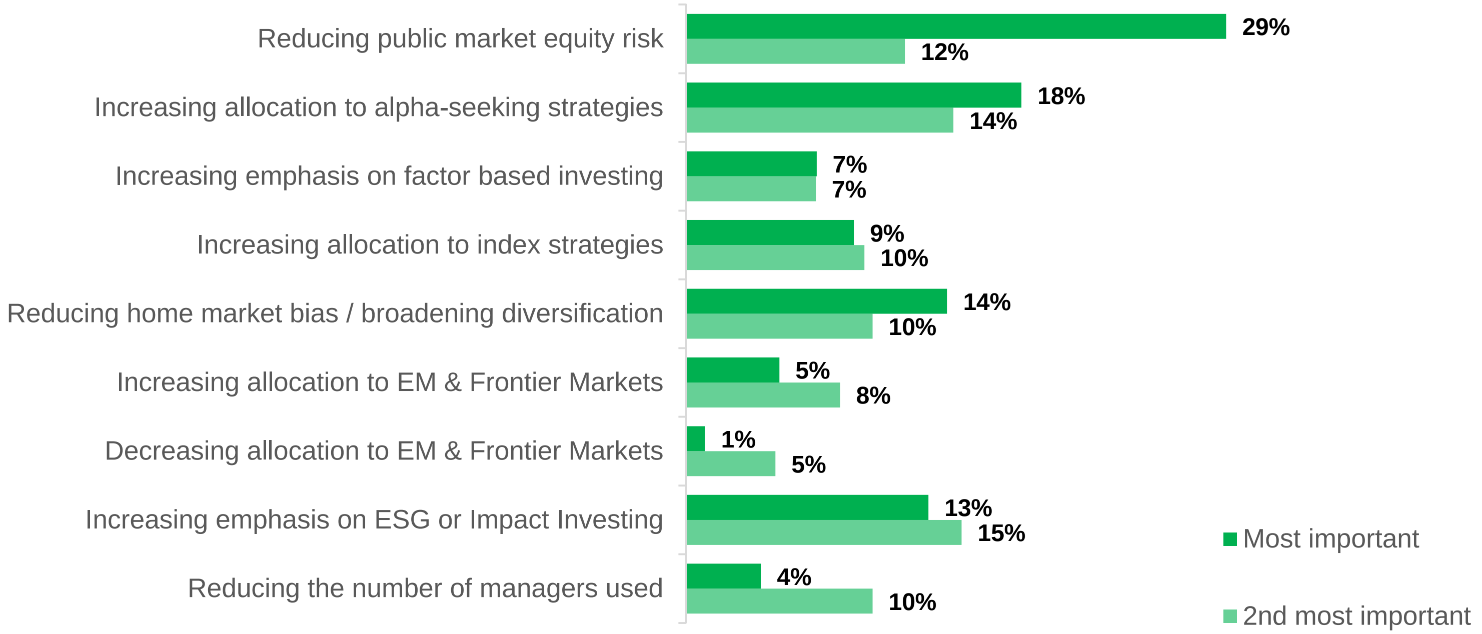
Within equities, institutions are shifting priorities away from public market equity risk while increasing allocation to alpha-seeking strategies

And specifically with respect to your EQUITY portfolio, which of the following will be your most important areas of focus for 2019?

Anticipated 2019 Equity Portfolio Focus Areas
(% most / 2nd most important)



Base sizes: Total (230). Note that 'Most Important' should sum to 100 =/- 2% due to rounding errors. '2nd Most Important' may not sum to 100% if clients chose not to provide a response

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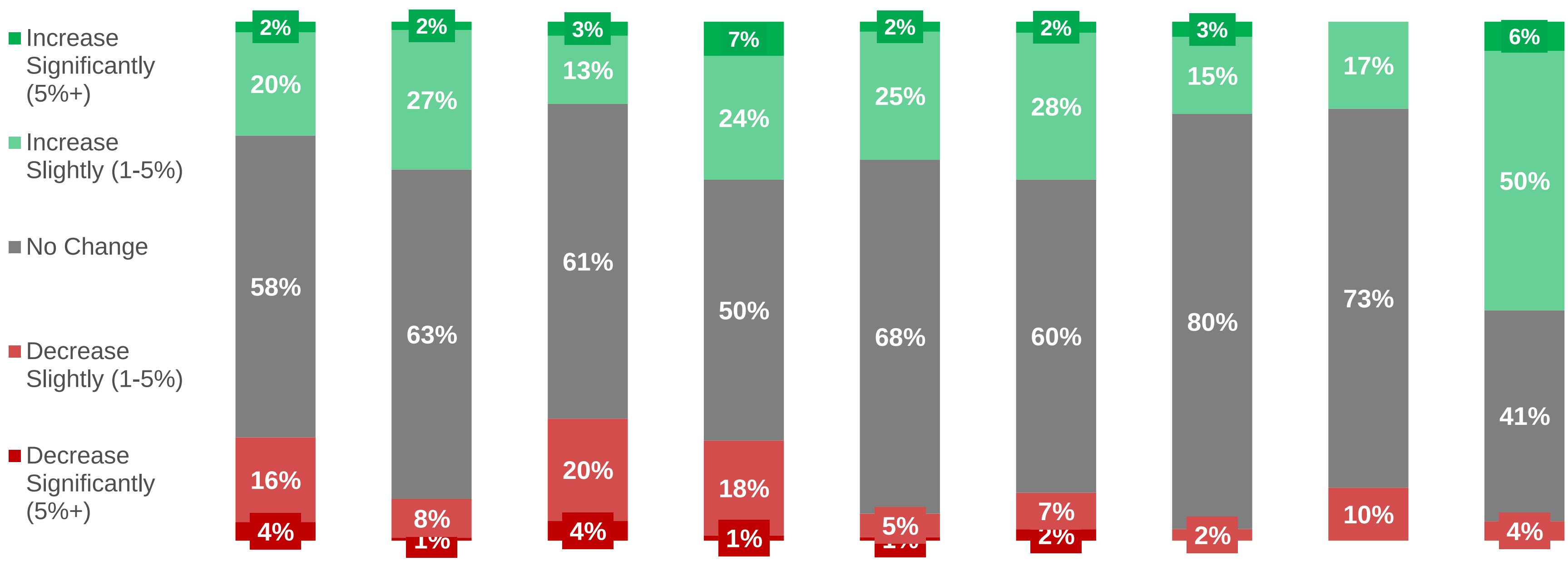
Within fixed income, the majority of institutions surveyed plan to increase private credit exposures

GLOBAL CLIENT BASE FIXED INCOME PORTFOLIO ALLOCATIONS:
Specific to your FI portfolio, how do you anticipate changing your allocations next year?

Anticipated 2019 Fixed Income Strategy Allocation Changes (% selected)

	Core / Core Plus	Emerging Markets	High Yield	Long Duration	Securitized Assets	Short Duration	Unconstrained	US Bank Loans	Private Credit



Net Change	+2%	+20%	-8%	+11%	+21%	+21%	+16%	+7%	+52%

Net percentages represent a net percentage intending to increase or decrease allocations to each asset class. (Calculation: % of firms intending to increase - % of firms intending to decrease) Base sizes: Total (230); Core/Core plus (196); Emerging Markets (186); High Yield (183); Long Duration (197); Securitized Assets (154); Short Duration (184); Unconstrained (135); US Bank Loans (137); Private Credit (160)

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Key notes about survey methodology

Important notes about the survey:

- We asked clients where they are likely to increase and decrease their allocations, but not **how they would reallocate from one asset class to another.**
- Specifically, we asked 230 Institutional clients how likely they are to increase (significantly or slightly), decrease (significantly or slightly), or leave their holdings unchanged in 2019 across seven different asset classes and nine areas within their fixed income portfolios.
- If a client didn't have exposure to a particular holding, they were excluded from the question.
- For some regions and specific client groups, we did not achieve enough responses to show the data on its own as the sample size is too small and not statistically reliable. The results, however, have been included in the global summary.
- Survey results for 2018 vs 2019 can be provided upon request.

Important Information

Clients were surveyed over a four week period from 6th November 2018.

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