

ETFs: Changing Capital Markets

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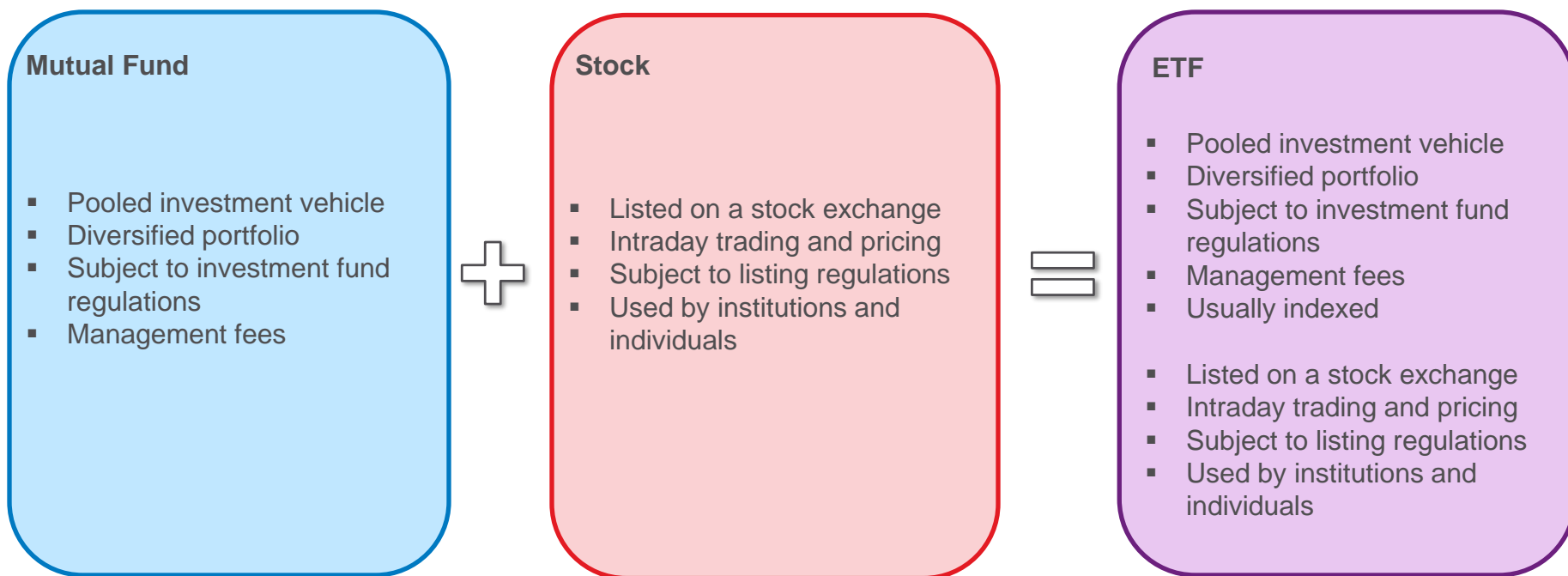
BlackRock Asset Management Canada Limited

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What is an Exchange Traded Fund?

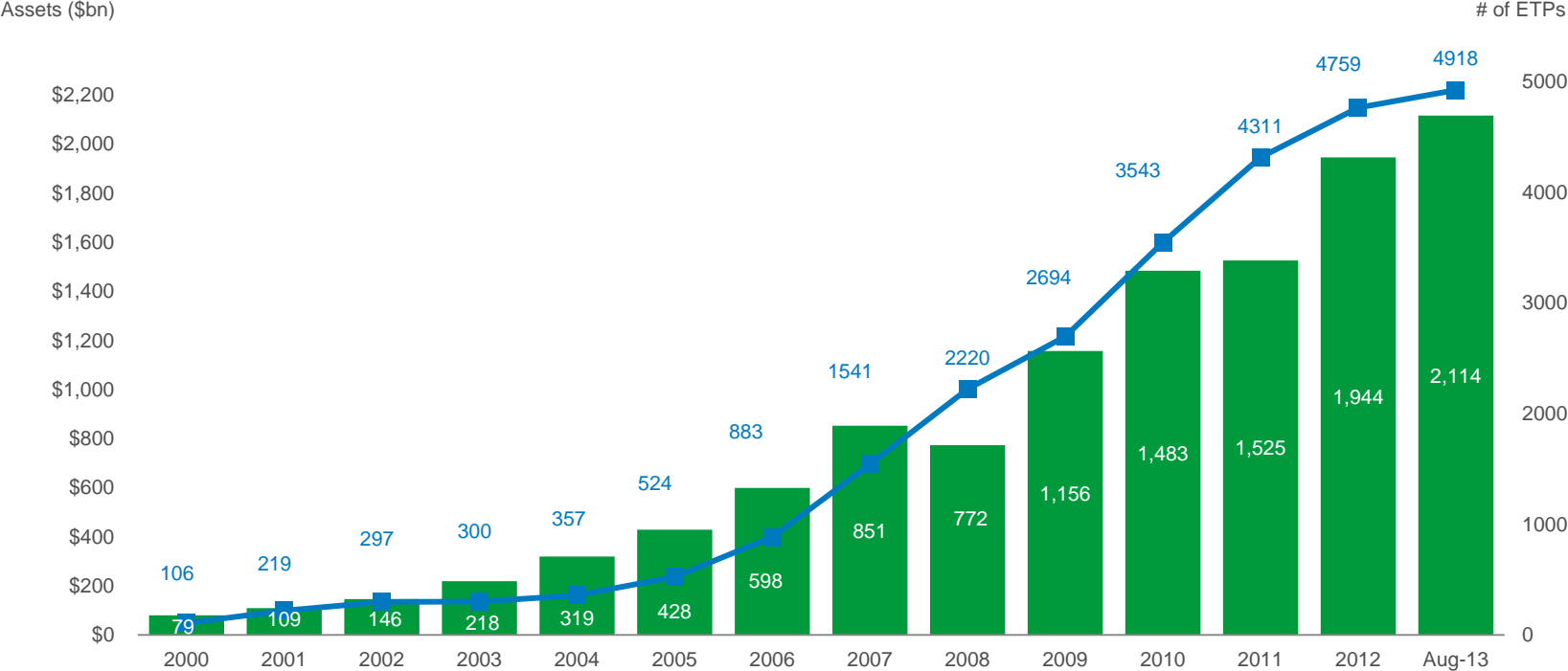
An Exchange Traded Fund (“ETF”) is...

- A pooled investment fund that combines the features of a traditional open-end mutual fund with those of a security that trades on an exchange



Global Exchange Traded Product (ETP) multi-year asset growth

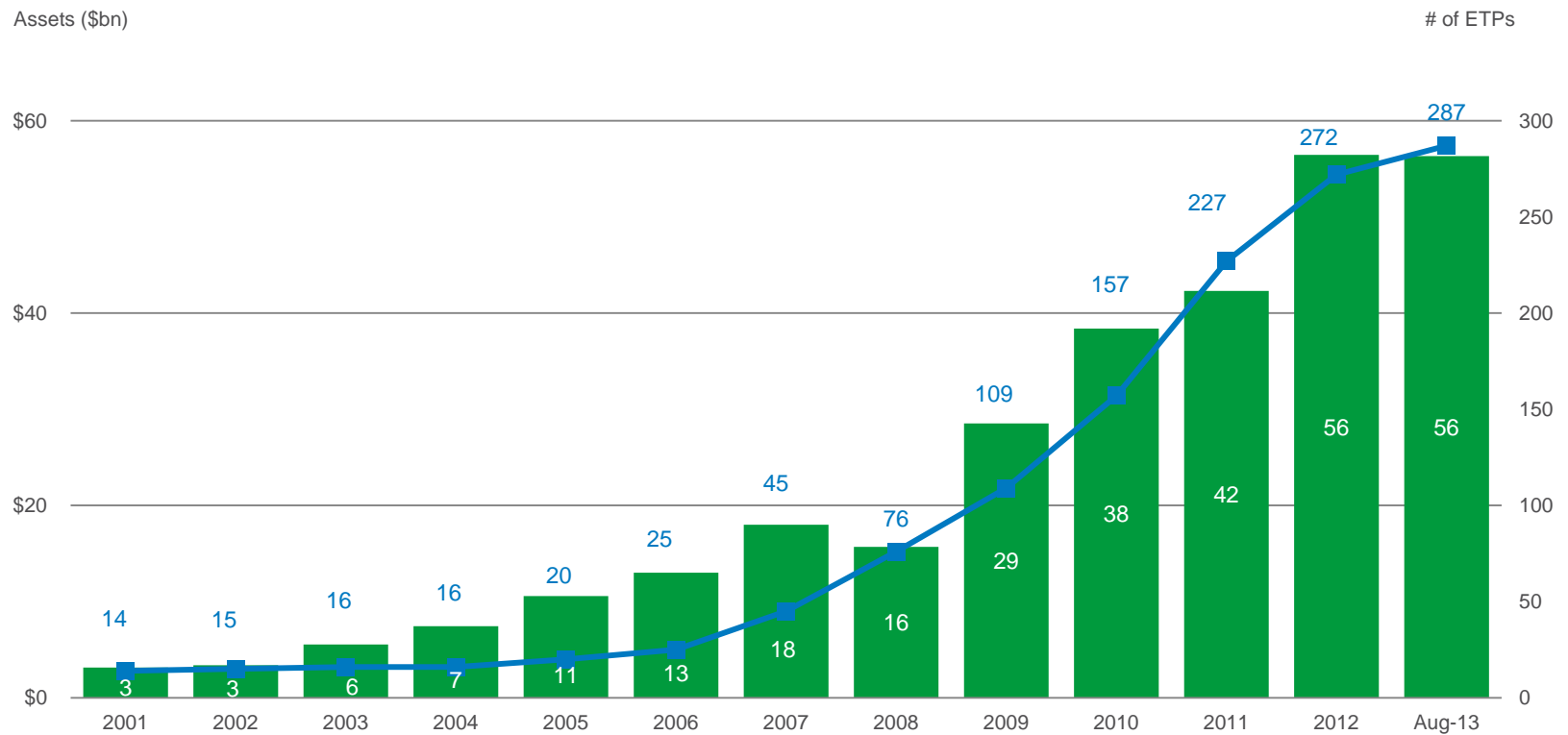
Global ETP Assets and Number of ETPs by Year



Data is as of August 29, 2013 for Europe and August 30, 2013 for the US, Canada, Latin America, Israel, and some Asia ETPs. Some Asia ETP data is as of July 30, 2013. 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.

Growth of ETFs in Canada has also been impressive & continues to evolve

Canada ETP Assets and Number of ETPs by Year

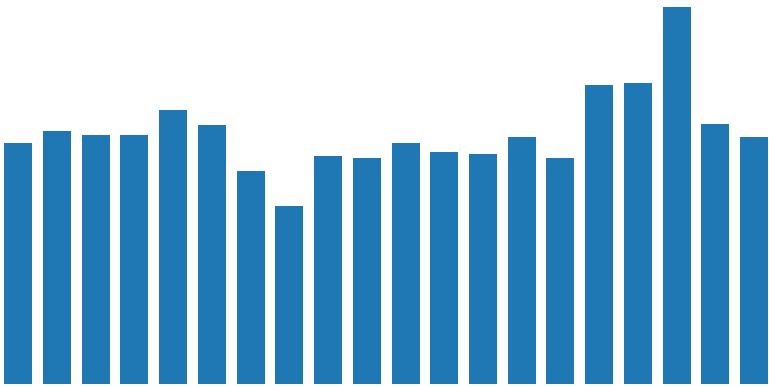


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ETFs are some of the world's most actively traded equity securities

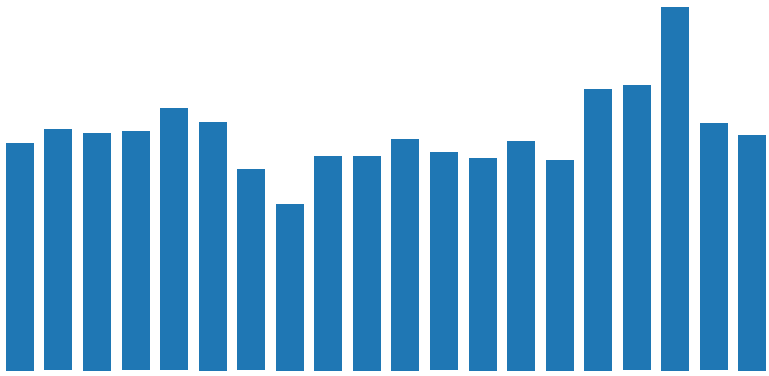
Global Average Daily Trading Volume (US\$bn)

50.0



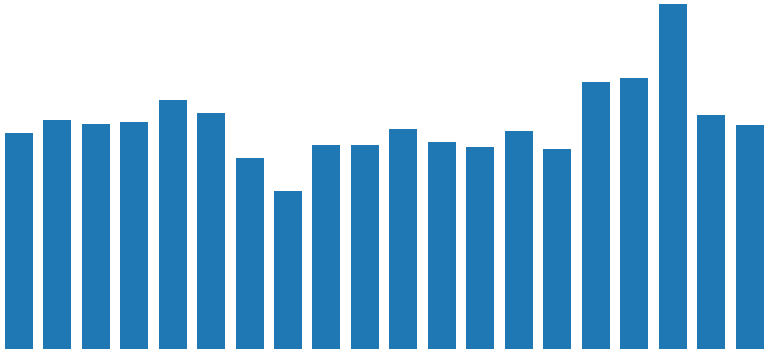
US Average Daily Trading Volume (US\$bn)

50.0

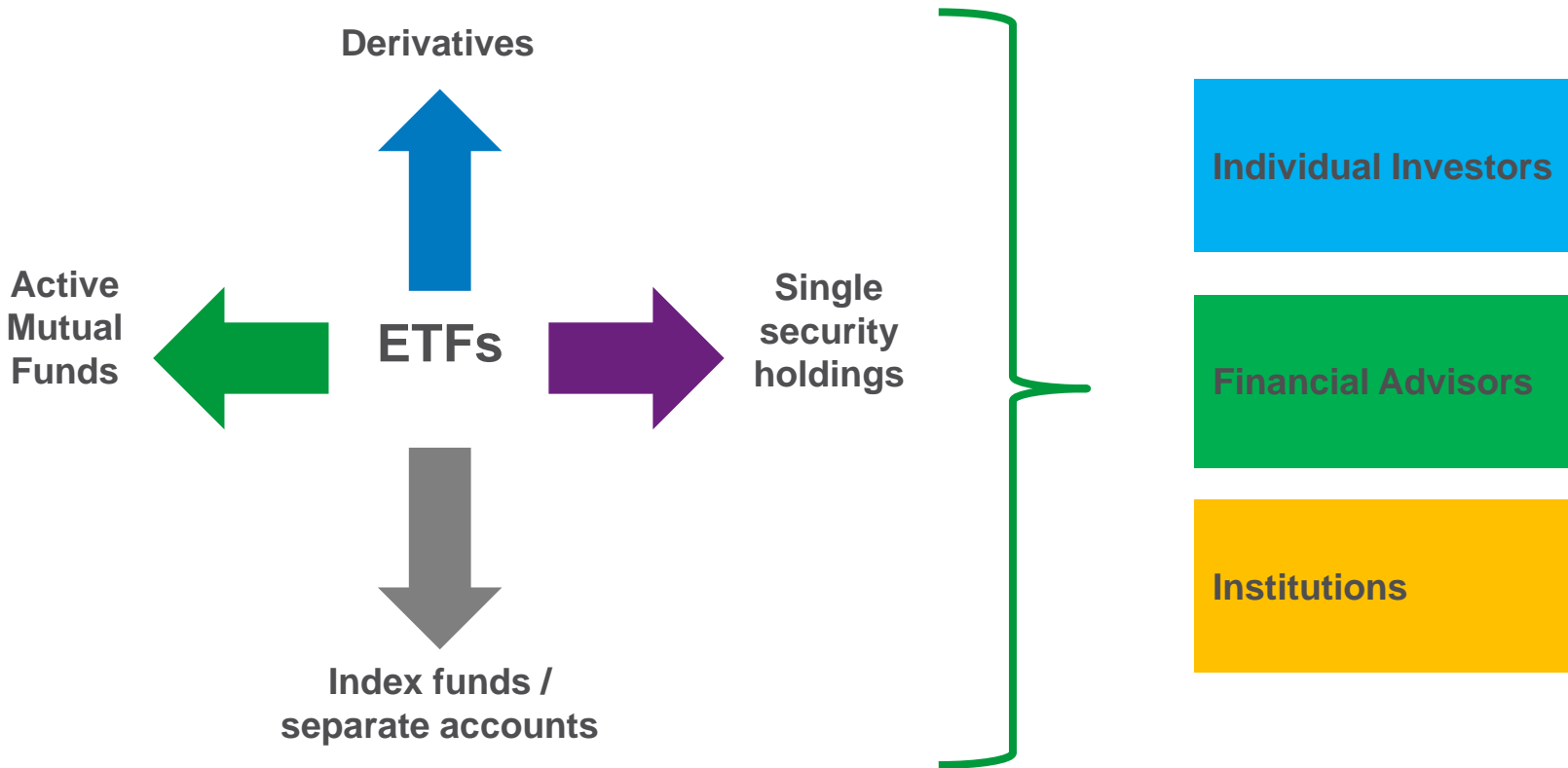


Canada Average Daily Trading Volume (US\$bn)

50.0

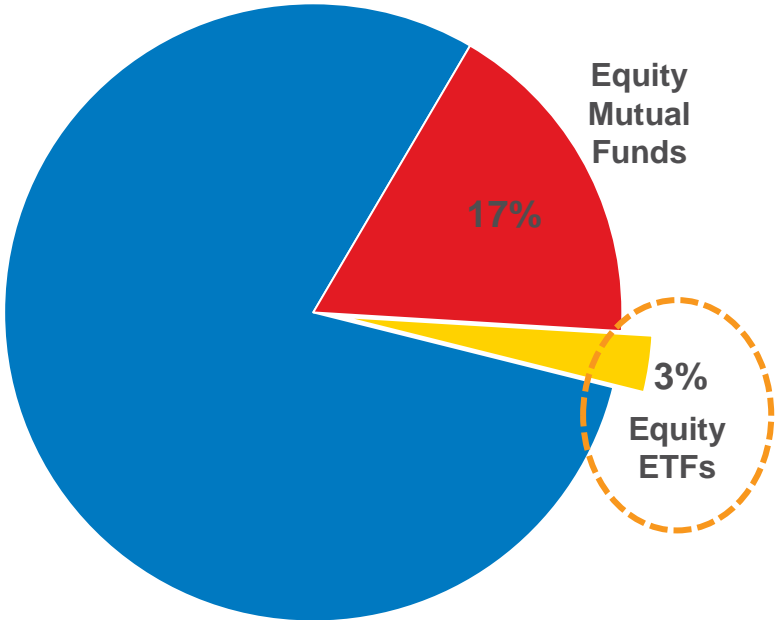


ETFs are about market exposure and are used by all types of and compete with many types of assets

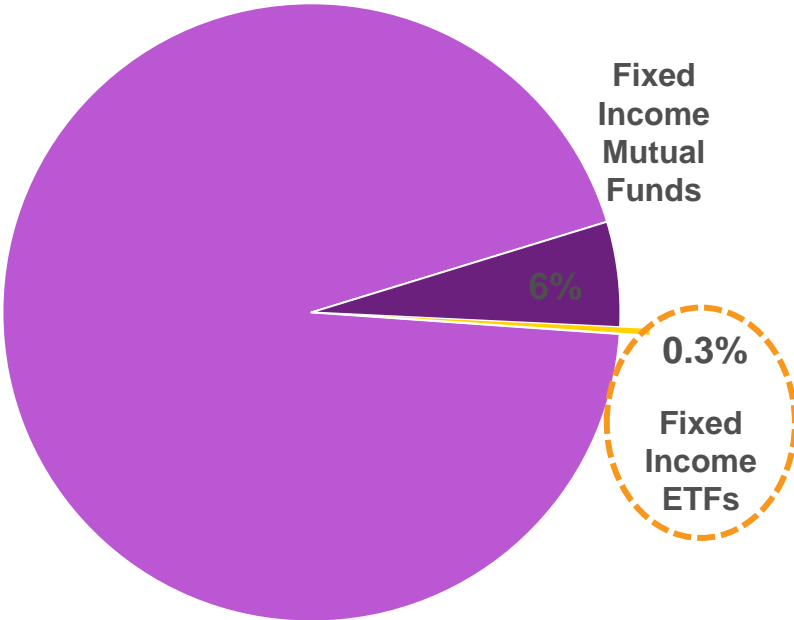


There is a huge runway for ETF growth

Global equity market = \$53T



Global fixed income market = \$100T



Global market and MFs as of December 2012. MFs and ETFs of December 2012. Source: The World Bank, Cerulli, BlackRock, Bloomberg.

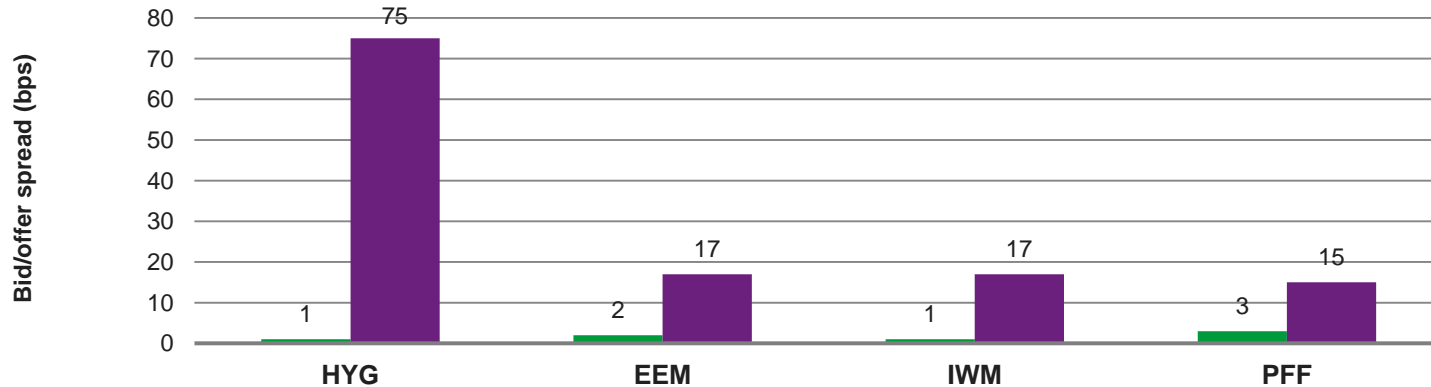
Global market as of June 2013. MFs and ETFs as of December 2012. Source: McKinsey, Cerulli, BlackRock, Bloomberg.

ETFs are transforming capital markets

ETFs can funnel participants to a central marketplace, reducing transaction costs and aiding price discovery:

- Securities that traditionally trade in opaque over-the-counter markets (most non-sovereign bonds)
- Securities traded in markets that are closed (ie: time zone differences, market disruptions)
- Efficient short-selling

ETFs offer price improvement relative to underlying securities¹



ETF bid/offer	HYG iShares iBoxx \$ High Yield Corporate Bond Fund	EEM iShares MSCI Emerging Markets Index Fund	IWM iShares Russell 2000 Index Fund	PFF iShares S&P U.S. Preferred Stock Index Fund
Basket bid/offer* (est.)				
ETF ADV(\$M)**	307	1,688	3,257	48
ETF AUM (\$M)	17,188	37,250	18,200	10,202

*Market bid/offer spread refers to the underlying securities of the respective index

**30-day average as of 9/30/12

Sources:

1. For illustrative purposes only. Sources: BlackRock Asset Management Canada Limited and its affiliates(collectively, "BlackRock"), Bloomberg LP ("Bloomberg"), Barclays PLC("Barclays"), NYSE Acra, as of 9/30/12

ETFs deliver price discovery: Emerging markets example

- The surprise announcement from the Federal Reserve on 9/18/13 to refrain from tapering the \$85bn a month of asset purchases and leave monetary policy looser for longer was supportive of liquidity constrained emerging markets
- The announcement was made at 2pm EST, meaning that most of its underlying securities were not trading
- EEM rallied nearly 3% and closed at a 428bps market price premium to NAV
- EM countries, including South Korea, China, and Taiwan, reacted positively on 9/19/13 in line with EEM's price movements from 9/18/13



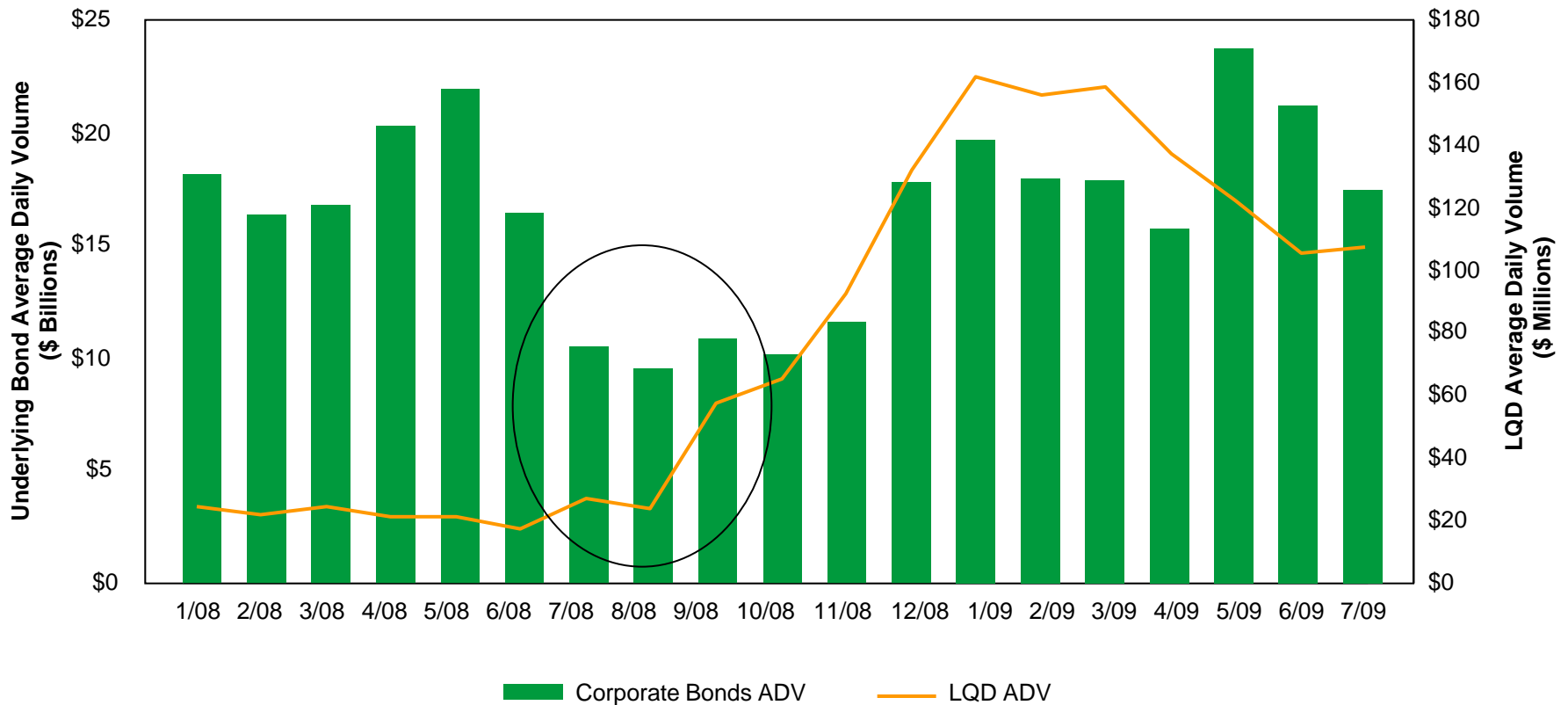
ETFs bring the bond market to the stock market

	Challenges with Individual bonds	Advantages of Fixed Income ETFs
Liquidity	<ul style="list-style-type: none"> Finding actionable bids and offers in volatile markets Ability to easily source liquidity for required trade size 	<ul style="list-style-type: none"> Trade intraday Creation/redemption process allows for trade sizes above average daily volume (ADV) levels
Access	<ul style="list-style-type: none"> Exposure to high yield, emerging markets and specialized sectors Significant time required to perform research on individual credits 	<ul style="list-style-type: none"> Over 40 fixed income ETFs available—providing access to government, credit, foreign/sovereign, short/long duration, real return, floating rate and high yield
Scale	<ul style="list-style-type: none"> Getting sufficient diversification, especially for smaller amounts High transaction costs on odd lots 	<ul style="list-style-type: none"> Exposure to multiple bonds through a single trade Minimum trade size is a single share
Reporting	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> Look-through analytics to underlying bonds that comprise the ETF basket

Bringing liquidity to fixed income markets in a credit crunch

During late 2008, when the credit markets became dislocated and illiquid, volume in the iShares iBoxx \$ Investment Grade Bond fund (LQD) rose significantly as investors began using the ETF for corporate bond exposure

Corporate Bond and ETF Volume (Monthly)



Sources: BlackRock, Federal Reserve Bank of New York, Bloomberg.

Thank you

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