

# Interactive Brokers

*in conjunction with*

**BlackRock**

*presents:*

## The New Diversification – Adding Alternative Investments

**Mark Peterson**  
**Director**

BlackRock



[webinars@interactivebrokers.com](mailto:webinars@interactivebrokers.com)



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**Webinar begins @ 12:00 pm EST**

 **Interactive Brokers**



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# Interactive Brokers for Advisors

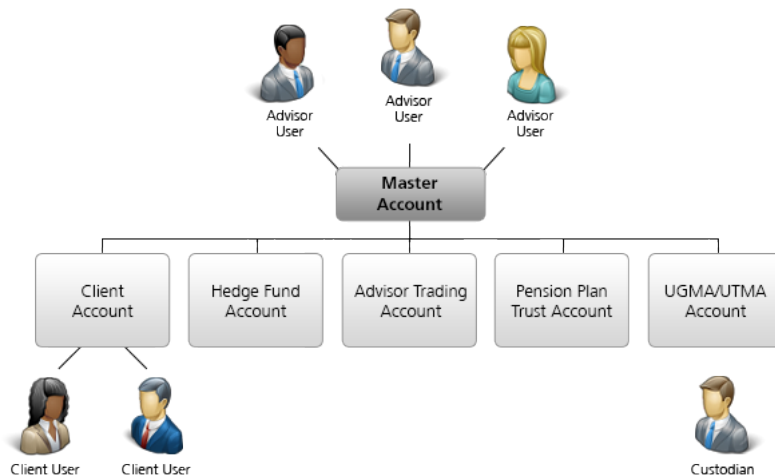
John Carroll Seeberg

[jseeberg@interactivebrokers.com](mailto:jseeberg@interactivebrokers.com)

203-618-5991 direct phone number

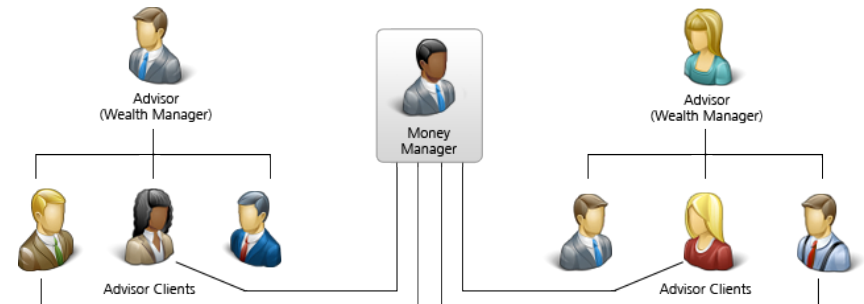
## IB Advisor

- Multi-Client trade allocation
- Manage accounts through Rebalance and Portfolio Models
- White brand your RIA
- Website Dev and Compliance tasks



## IB Money Manager

- Manage clients from other RIAs
- Allocate and Rebalance across multiple RIAs
- Market through IB Money Manager Marketplace





## Why Interactive Brokers for Advisors

### Unique Technology for Advisors

Complete turnkey solution for Advisors provides trading, clearing, reporting and billing capability for advisors of any size. Our technology will save you a great deal of time and money, and make your operations much more efficient.

### We'll Minimize Your Costs

High costs eat away your client's returns and ultimately diminish your business.

We specialize in providing best executions and transparent, low commissions and financing rates to help you maximize your results.

### Financial Strength And Stability

Our strong capital position, conservative balance sheet and automated risk controls help protect IB and our customers from large trading losses.

### Innovative Technology

Our technology is the result of 38 years of focus on building it. Sophisticated tools on our platform give you a real advantage in the marketplace. Pre-recorded webinars explain how to use TWS, algos and order types along with all other platform features.

### Global Access

Our customers have direct access to trading on over 100 market centers in 24 countries and 20 currencies, including live data, real time news feeds and information.



# BLACKROCK®

## MARK PETERSON

Director

**Mark Peterson**, Director of Investment Strategy and Education for BlackRock where his responsibilities include relating BlackRock's Investment Strategy and investment views to key institutional and financial advisor clients and offering perspective on all asset classes - including equities, fixed income, alternatives and multi-sector approaches to investing. A 20-year industry veteran with extensive expertise and experience educating financial professionals and investors on market and investment topics.

Prior to joining BlackRock, Mark was a Director and Head of Product Strategy and Economics at Deutsche Bank, where he developed investment and product strategies for all investment products. Mark also worked as a product specialist across all asset classes where his responsibilities' included developing new mutual fund launches and delivering market and investment presentations across the US. Additionally, Mark has spent time on floor of the Board of Trade and Chicago Mercantile Exchange. Mark received his B.S. degree from Arizona State University.

# **The New Diversification**

## ***Adding Alternative Investments***

*Investing in alternative investments presents the opportunity for significant losses, including the loss of your total investment. Such strategies have the potential for heightened volatility and in general, are not suitable for all investors.*

# Agenda

1. Failure of Traditional Diversification
2. Redefining Diversification
3. The Way Forward – Practical Application

## Failure of Traditional Diversification

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# Measuring of Risk

## Correlation

- ▶ Measure of strength of the linear return relationship between two assets and their movement
- ▶ Can be any value between +1 and -1

	Fund 1	Fund 2	Fund 3	Fund 4	Fund 5	Fund 6	Fund 7
Fund 1	1.00						
Fund 2	0.90	1.00					
Fund 3	0.80	0.93	1.00				
Fund 4	0.84	0.80	0.75	1.00			
Fund 5	0.75	0.77	0.72	0.83	1.00		
Fund 6	0.22	0.21	0.16	0.27	0.22	1.00	
Fund 7	0.60	0.63	0.61	0.63	0.63	0.49	1.00

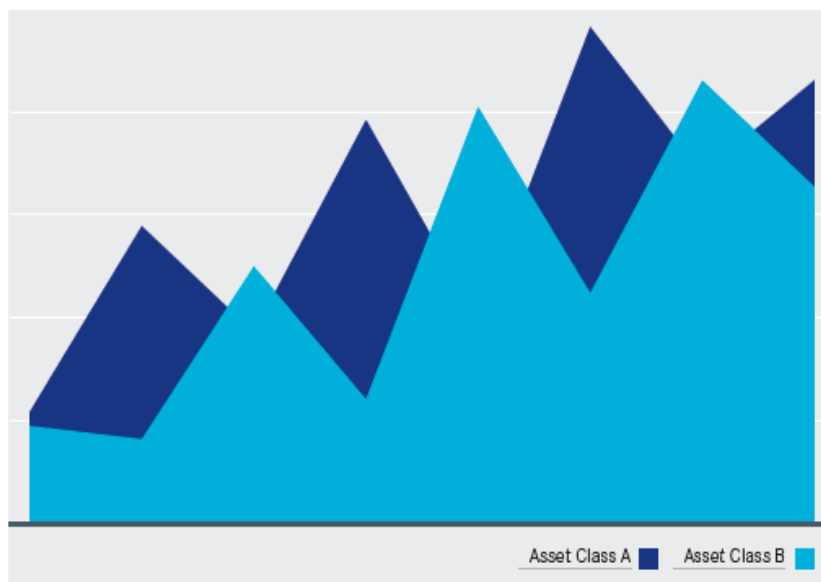
High correlations can signal potential risk

# Traditional Diversification

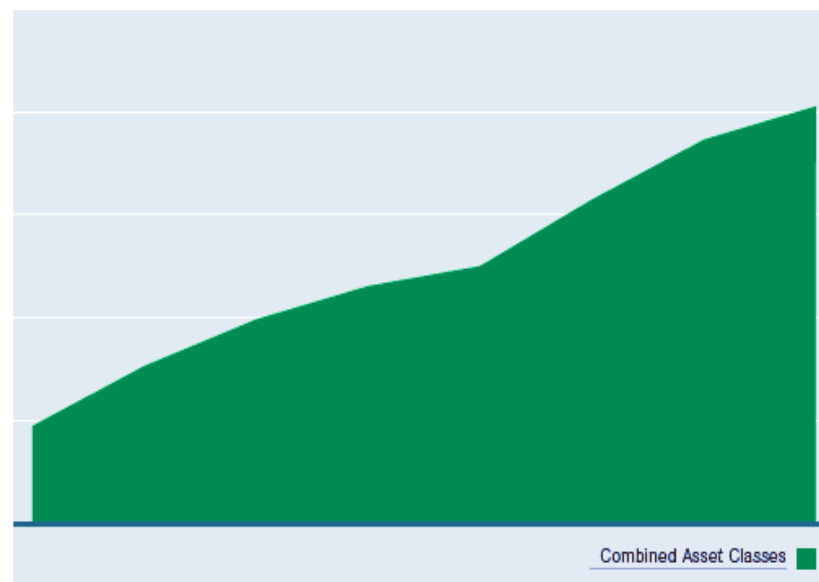
Seeks to build a portfolio consisting of lower correlated equity and fixed income asset classes to reduce volatility

## Reduce Volatility By Owning Two Asset Classes With Low Correlation

Individual Asset Classes With Negative Correlation



Combined Asset Classes



Low correlations can provide portfolio diversification and reduce risk

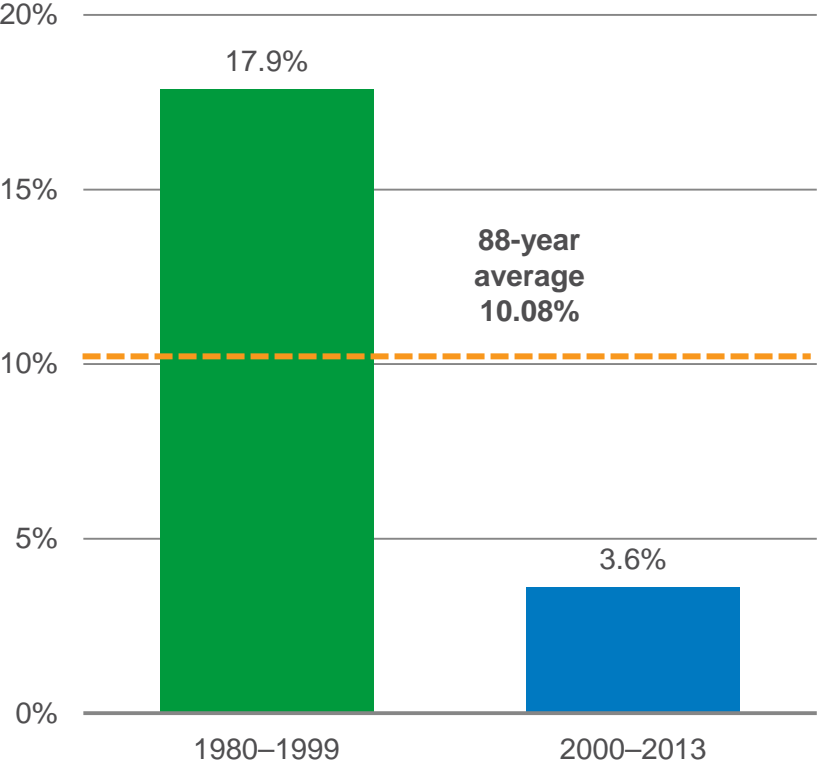
The information shown is for illustrative purposes only and is not meant to represent the performance of any particular investment or asset class. Investing involves risk, including the loss of principal amount invested.

# Traditional Diversification Underperformed When the Return Environment Changed

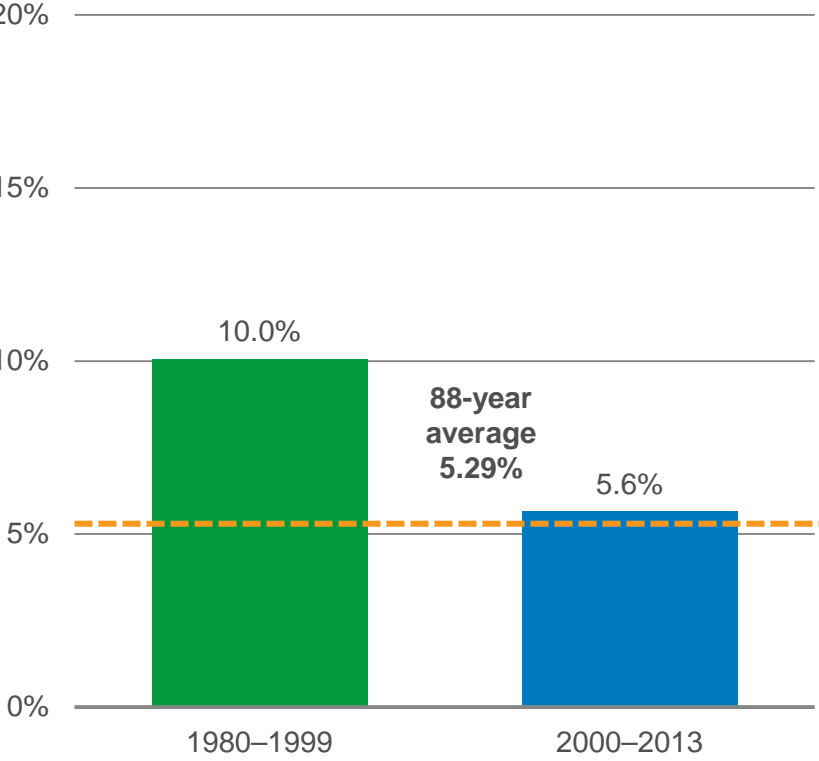
## 1. Lower Returns

Average Annual Returns Last 30+ Years

### US Stocks – Average Annual Returns by Decade



### US Bonds – Average Annual Returns by Decade

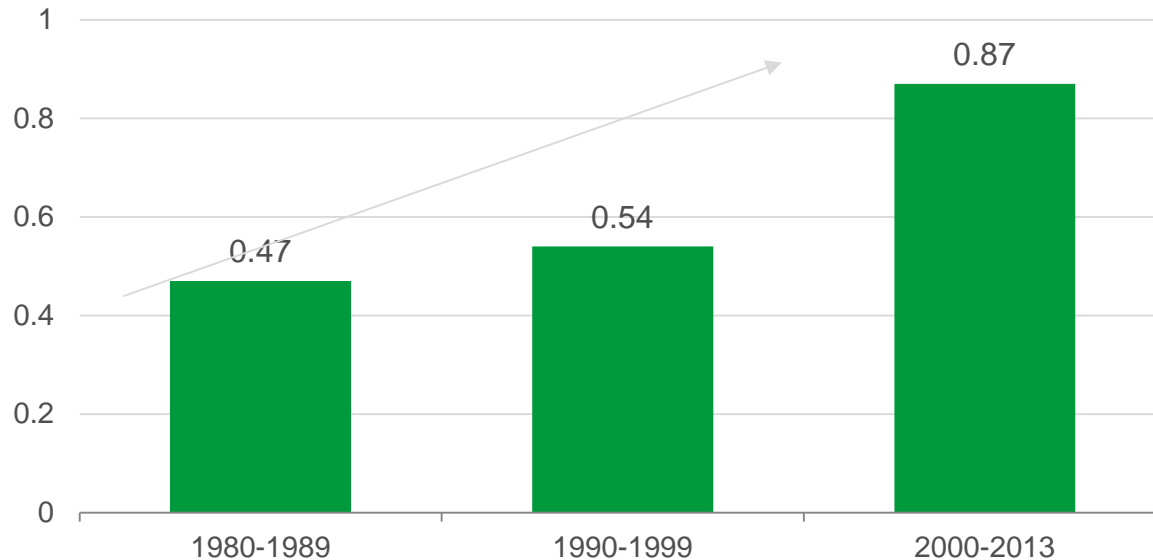


Source: Morningstar. As of 12/31/13. **Past performance is no guarantee of future results.** It is not possible to invest directly in an index. US Stocks are represented by the S&P 500 Index. The value of equity investments are more volatile than other securities. Equity index returns assume reinvestment of all distributions and unlike mutual funds, do not reflect fees or expenses. US Bonds are represented by the Barclays US Aggregate Bond Index. Fixed Income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

# Traditional Diversification Methods Less Effective Over the Last 30+ Years

## 2. Increased Correlations Over Time

Correlation of International and US Stocks

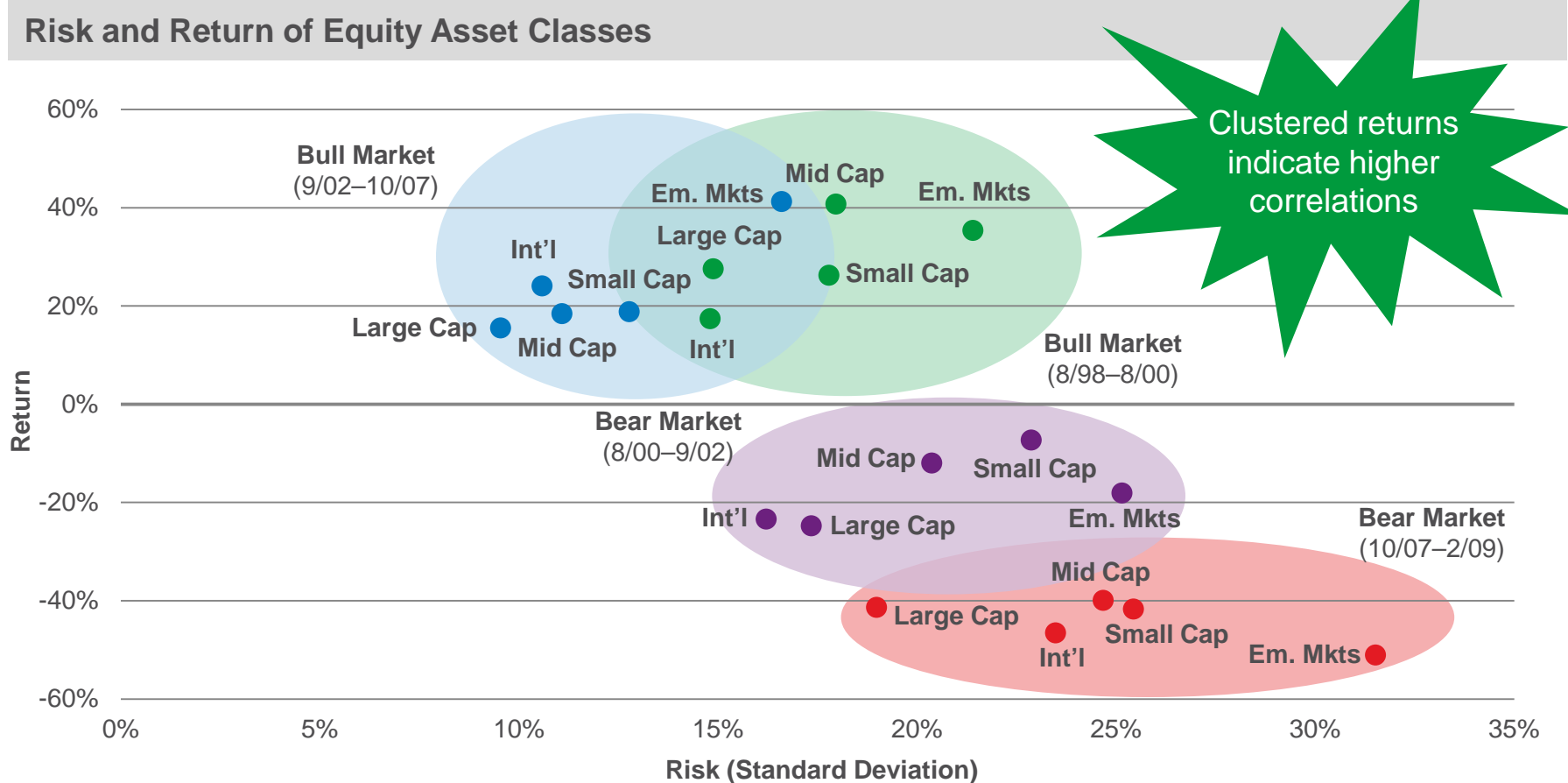


## 3. Increased Correlations During Time of Crisis

	1999–2013	2007–2009
US Fixed Income and US Stocks	-0.06	0.32

Source: Morningstar. As of 12/31/13. **Past correlations and performance are no guarantee of future results.** International Stocks are represented by the MSCI EAFE Index. US Stocks are represented by S&P 500 Index. US Fixed Income is represented by the Barclays US Aggregate Index. It is not possible to invest directly in an index.

# Traditional Equity Cluster During Bull and Bear Markets



Sources: BlackRock; Informa Investment Solutions. Past performance is no guarantee of future results. Index returns are shown for illustrative purposes only. It is not possible to invest directly in an index. Large Cap Stocks are represented by the S&P 500 Index. Mid Cap Stocks are represented by the S&P 400 Mid Cap Index. Small Cap Stocks are represented by the S&P 600 Small Cap Index. International Stocks are represented by the MSCI EAFE Index. Emerging Markets Stocks are represented by the MSCI Emerging Markets Index.

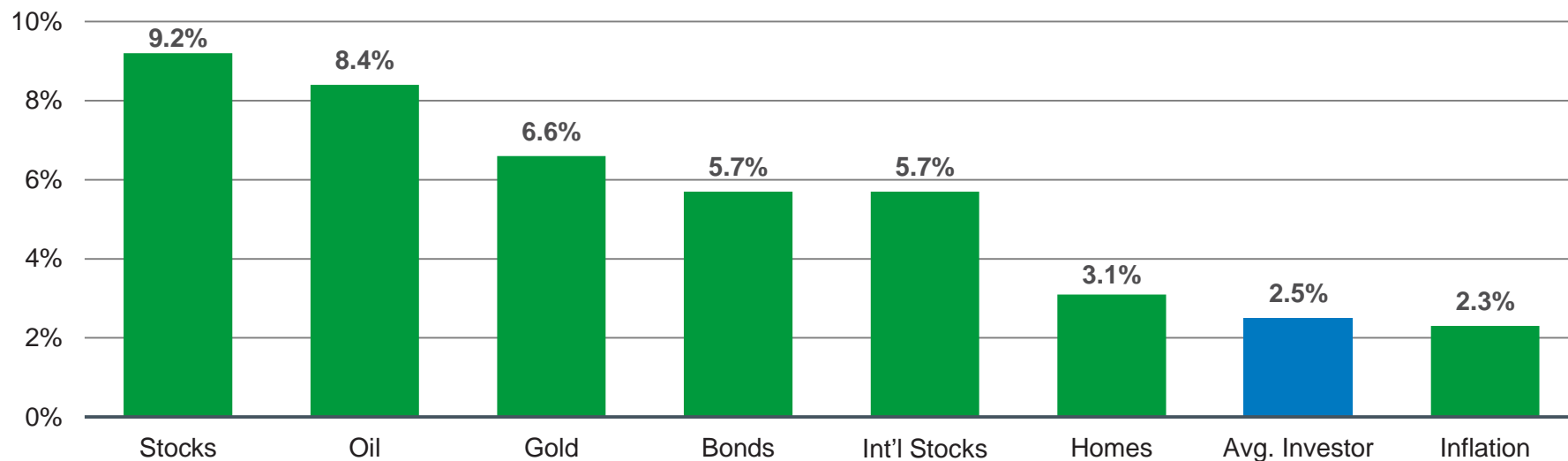
# Investors Have Underperformed

## Perfect storm of variables lead to high volatility and underperformance

- ▶ Correlations close to 1.
- ▶ Insufficient diversification.
- ▶ Emotional investing.

### Investors Have Underperformed

20-Year Annualized Returns by Asset Class



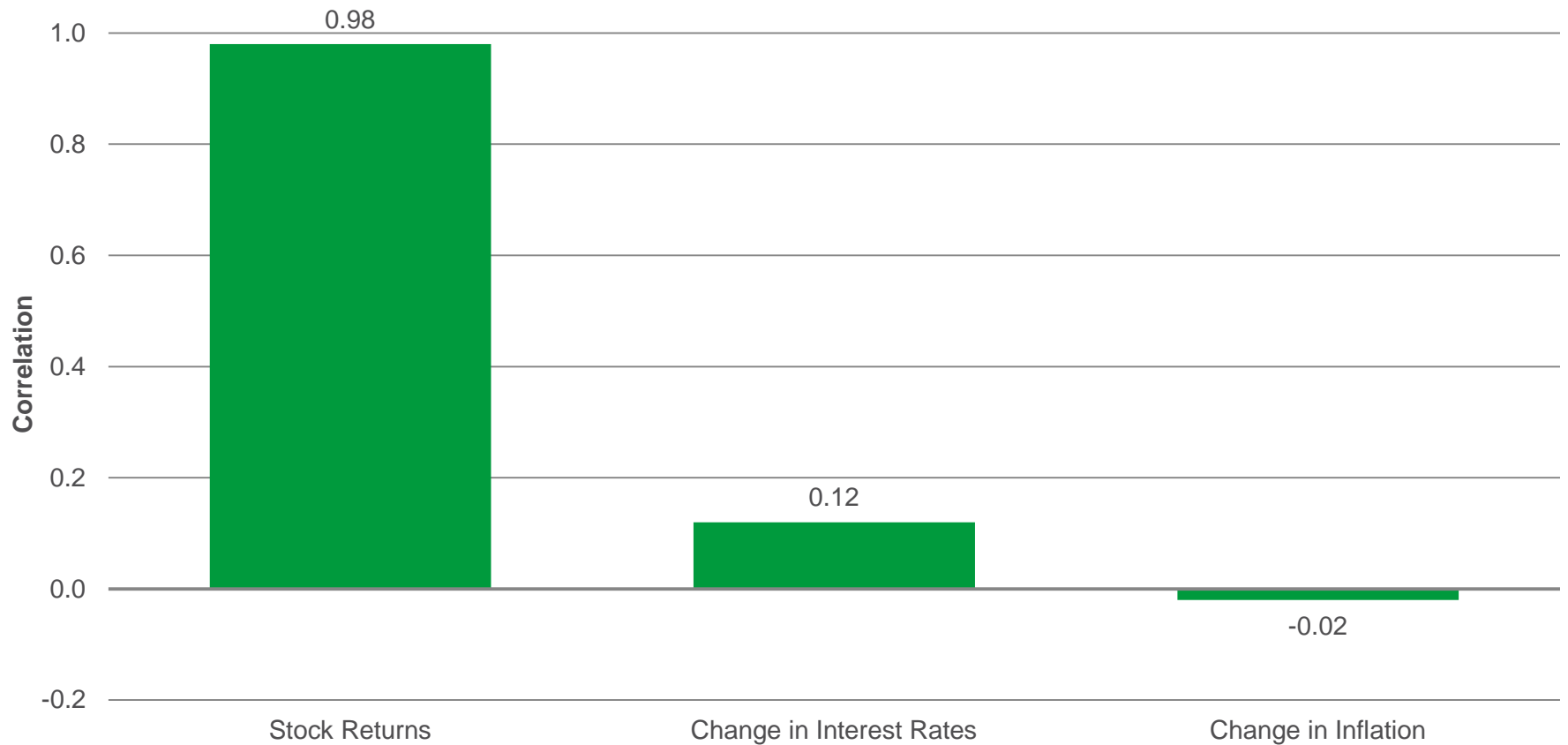
Sources: BlackRock; Bloomberg; Informa Investment Solutions; Dalbar. **Past performance is no guarantee of future results.** It is not possible to directly invest in an index. Stocks are represented by the S&P 500 Index, an unmanaged index that consists of the common stocks of 500 large-capitalization companies, within various industrial sectors, most of which are listed on the New York Stock Exchange. Oil is represented by the NYMEX Light Sweet Crude Future Index. Contract size is 1,000 barrels with a contract price quoted in US Dollars and Cents per barrel. Delivery dates take place every month of the year. Gold is represented by the change in the spot price of gold in USD per ounce. Bonds are represented by the Barclays US Aggregate Bond Index, an unmanaged market-weighted index that consists of investment-grade corporate bonds (rated BBB or better), mortgages and US Treasury and government agency issues with at least 1 year to maturity. International Stocks are represented by the MSCI EAFE Index, a broad-based measure of international stock performance. Homes are represented by the Existing One Family Home Sales Median Price Index. Inflation is represented by the Consumer Price Index. Average Investor is represented by Dalbar's average asset allocation investor return, which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/13 to match Dalbar's most recent analysis.

# Redefining Diversification

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# Traditional Diversification Contains Mostly Equity Risk

Correlation of Traditional 60/40 Portfolio to Risk Sources Over the Last 15 Years (1999–2013)

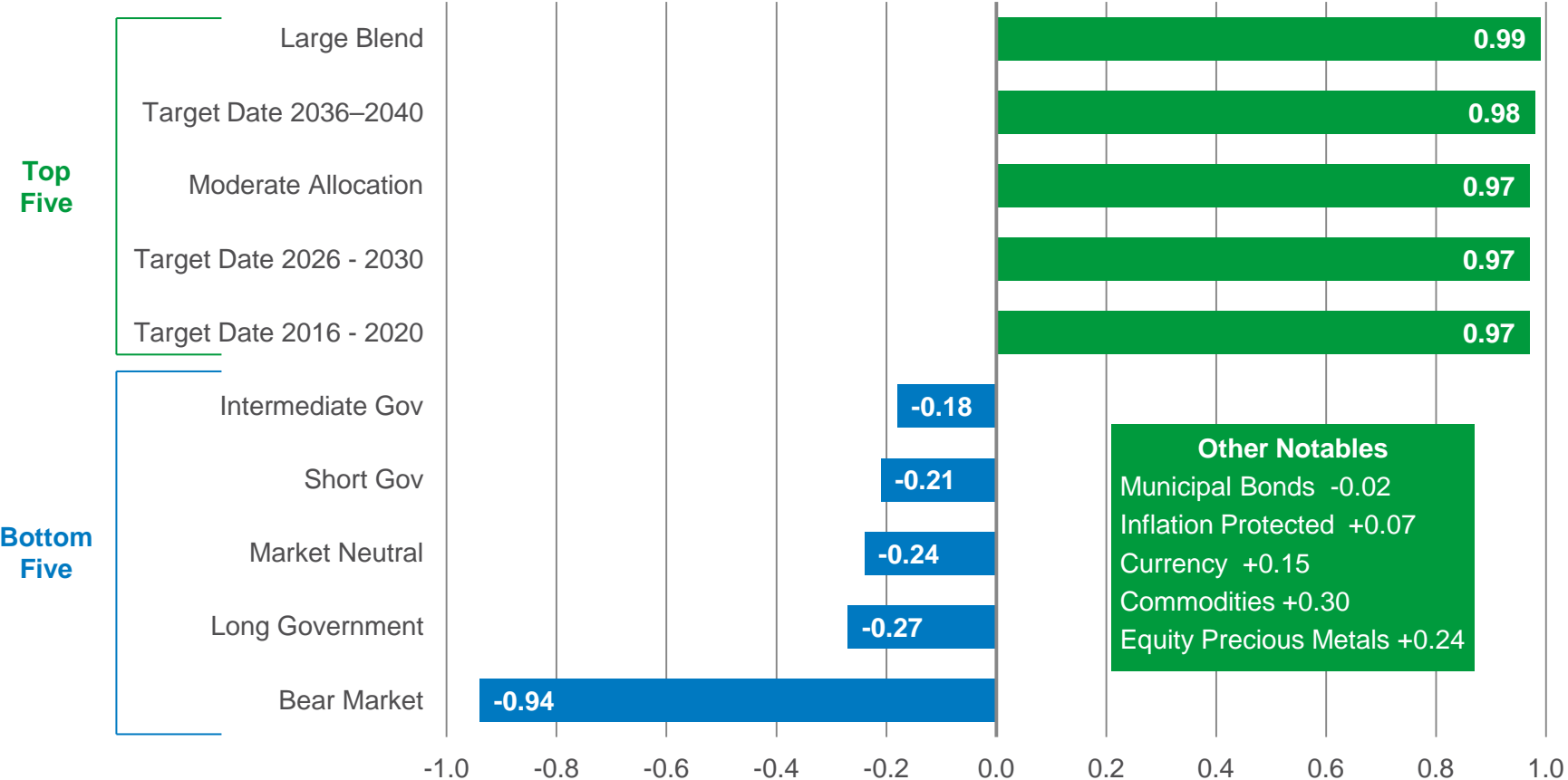


Sources: BlackRock; Bloomberg; Informa Investment Solutions. Traditional 60/40 portfolio composed of 60% S&P 500 Index and 40% Barclays Capital US Aggregate Bond Index, rebalanced annually. Stock returns are represented by the S&P 500 Index. Change in interest rates represented by the monthly change in the 10-Year Treasury Yield. Change in inflation is represented by the Consumer Product Index. Past performance and correlations do not guarantee or indicate future results. It is not possible to invest directly in an index.



# Enhanced Diversification Considers Risk Beyond Equities

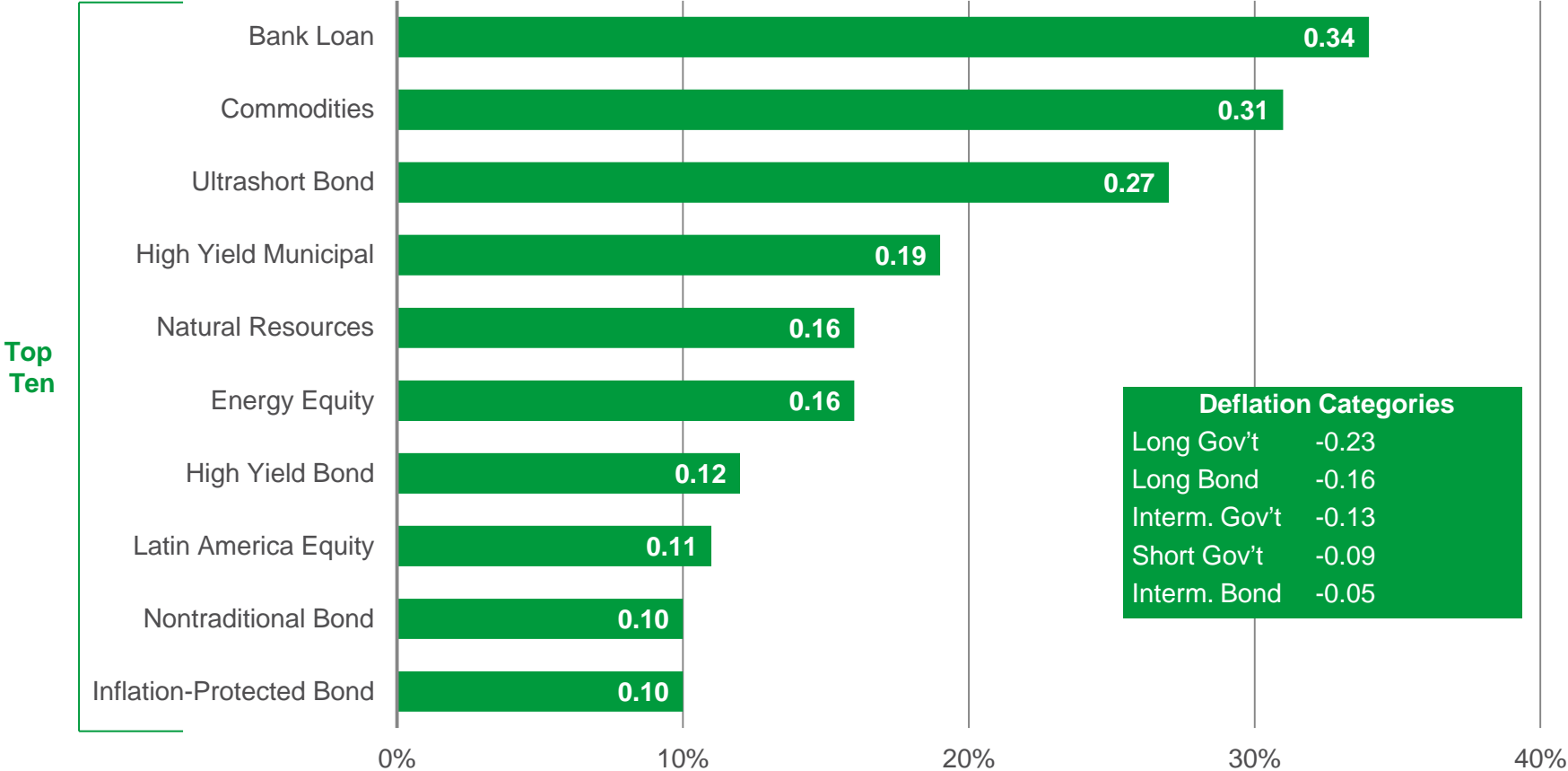
## 15-Year Correlation with the Equity Market Top Five and Bottom Five in All Morningstar Categories



Source: Morningstar, as of 12/31/13. Past correlations are no guarantee of future correlations. Equities are represented by the S&P 500 Index. Commodities are represented by the S&P GSCI Index. Index performance is shown for illustrative purposes only. Additional asset classes are represented by Morningstar Category averages. Correlations over other time periods might not be as favorable.

# Enhanced Diversification Considers Inflation Risk

## 15-Year Correlation with Inflation Top 10 in All Morningstar Categories



Source: Morningstar as of 12/31/13. Past correlations are no guarantee of future correlations. Commodities are represented by the S&P GSCI Index. Index performance is shown for illustrative purposes only. Additional asset classes are represented by Morningstar Category averages. Inflation is represented by the US Bureau of Labor Statistics, CPI All Urban. Correlation over other time periods might not be as favorable.

# Enhanced Diversification Moves Beyond Long-Only Equity and Fixed Income

## Traditional Diversification Relies On

### Traditional Equity

- Large Cap
- Mid Cap
- Small Cap
- Value
- Growth
- International
- Emerging Markets

### Traditional Fixed Income

- Treasuries
- Corporates
- High Yield
- MBS/ABS
- Floating Rate
- Global
- International

## Enhanced Diversification Can Include

### Alternative Equity Strategies

- Long/Short
- 130/30
- Market Neutral
- Short Bias
- Private Equity
- Arbitrage

### Alternative Fixed Inc. Strategies

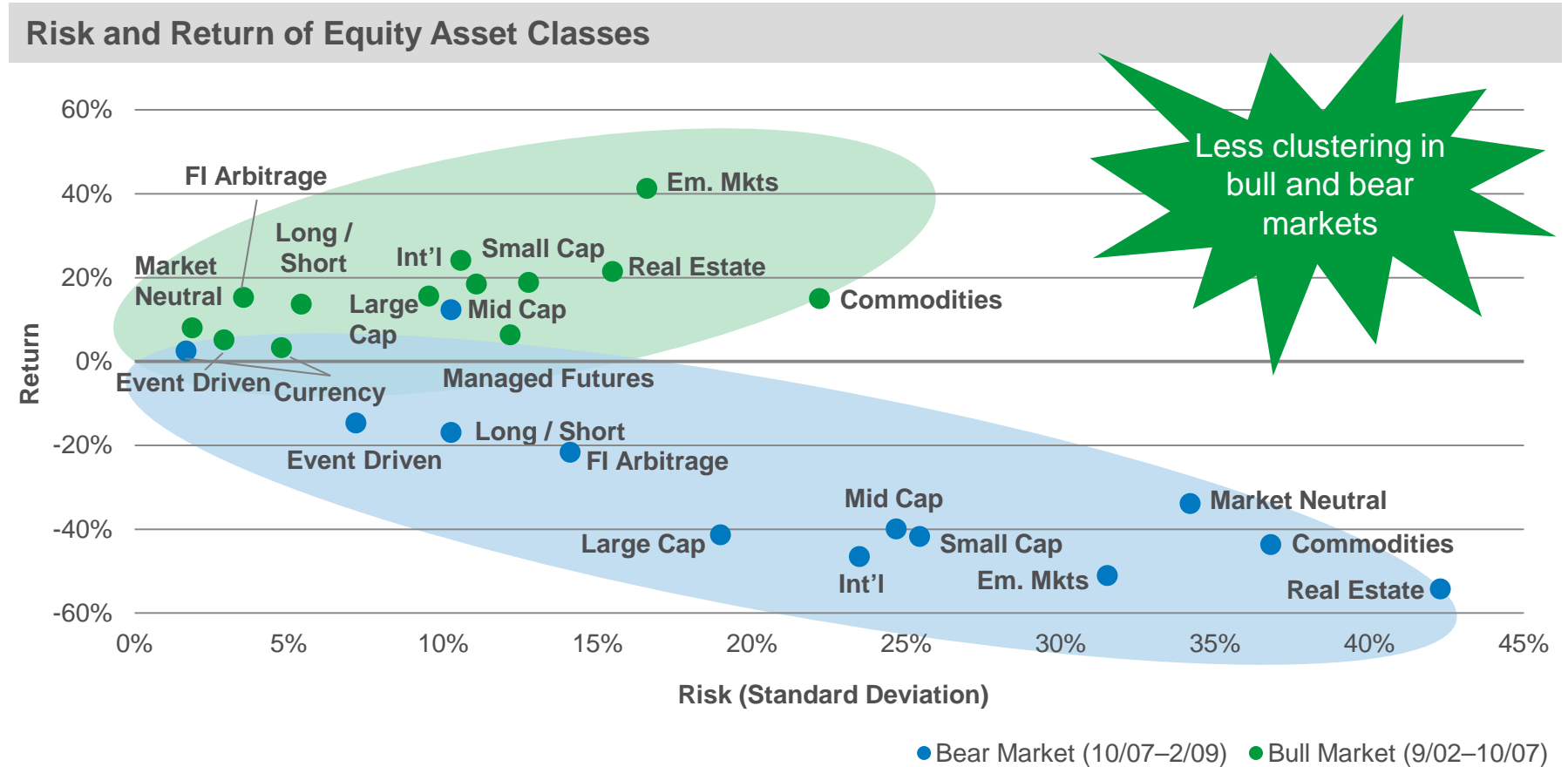
- Duration Management
- Yield Management
- Long/Short
- Opportunistic/Unconstrained
- Distressed Debt
- Credit Arbitrage

### Alternative Assets

- Gold
- Commodities
- Currency
- Infrastructure
- Real Assets
- Real Estate

*Enhanced diversification can carry additional risk to a portfolio due to the sophisticated strategies employed. Diversification does not guarantee a profit or protect against loss in declining markets. For additional information about the risks associated with alternative asset classes, please see slide 25.*

# Enhanced Diversification Has Less Clustering

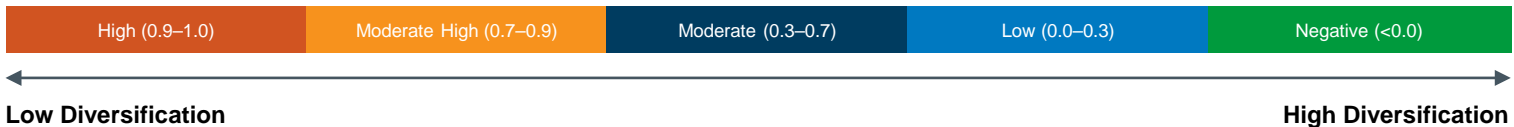


Sources: BlackRock; Informa Investment Solutions. Past performance is no guarantee of future results. It is not possible to invest directly in an index. Large Cap Stocks are represented by the S&P 500 Index. Mid Cap Stocks are represented by the S&P 400 Mid Cap Index. Small Cap Stocks are represented by the S&P 600 Small Cap Index. International Stocks are represented by the MSCI EAFE Index. Emerging Markets Stocks are represented by the MSCI Emerging Markets Index. Long / Short is represented by the Dow Jones / Credit Suisse Long Short Equity Index. Market Neutral is represented by the Dow Jones / Credit Suisse Equity Market Neutral Index. Event Driven is represented by the Dow Jones / Credit Suisse Event Driven Index. Fixed Income Arbitrage is represented by the Dow Jones / Credit Suisse Fixed Income Arbitrage Index. Managed Futures is represented by the Barclay CTA Index. Real Estate is represented by the NAREIT All Equity Index. Currency is represented by the Barclay Currency Traders Index. Commodities is represented by the Goldman Sachs Commodity Index.

# Enhanced Diversification Seeks to Capitalize on Lower Correlations

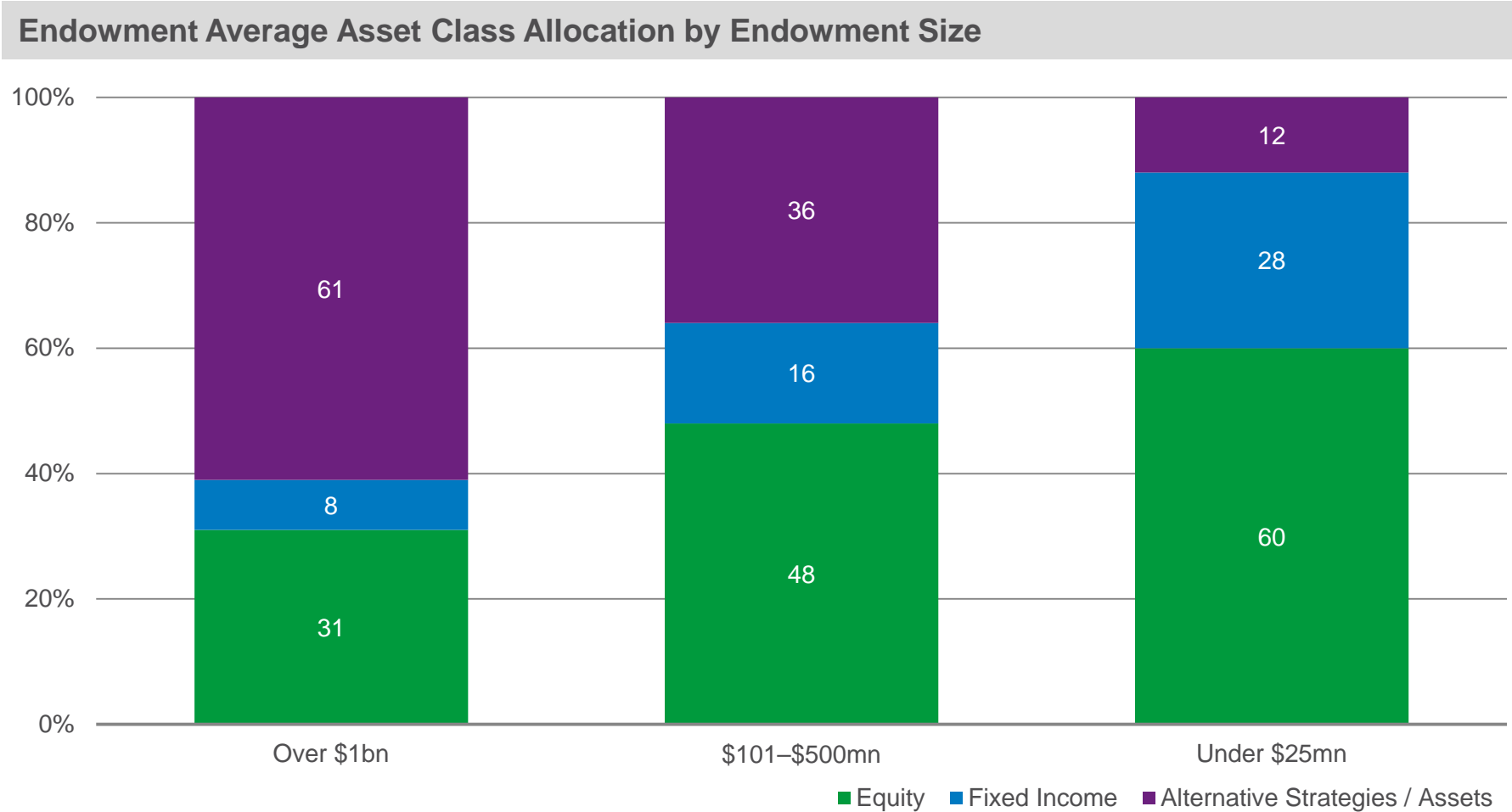
## Correlation (1999–2013)

		Equity					Fixed Income			Alternative Strategies				Alternative Assets			
		Large Cap	Mid Cap	Small Cap	Int'l	Emerging Mkts	Corp.	High Yield	Treas.	Long / Short	Mkt Neutral	Event Driven	FI Arbitrage	Mgd Futures	Real Estate	Currency	Commodities
Equity	Large Cap	1.00															
	Mid Cap	0.91	1.00														
	Small Cap	0.82	0.93	1.00													
	Int'l	0.87	0.84	0.78	1.00												
	Emer. Mkts	0.78	0.79	0.73	0.86	1.00											
Fixed Income	Corp.	0.18	0.20	0.15	0.30	0.28	1.00										
	High Yield	0.63	0.67	0.64	0.67	0.69	0.51	1.00									
	Treas.	-0.31	-0.31	-0.31	-0.25	-0.26	0.63	-0.20	1.00								
Alt. Strategies	Long / Short	0.62	0.69	0.68	0.74	0.73	0.24	0.50	-0.19	1.00							
	Mkt Neutral	0.28	0.29	0.29	0.28	0.25	-0.09	0.37	-0.29	0.21	1.00						
	Event Driven	0.64	0.70	0.65	0.71	0.71	0.22	0.64	-0.34	0.75	0.35	1.00					
	FI Arbitrage	0.40	0.43	0.36	0.47	0.47	0.42	0.62	-0.10	0.41	0.36	0.56	1.00				
	Mgd Futures	-0.14	-0.08	-0.07	0.00	0.03	0.16	-0.11	0.26	0.13	-0.01	0.07	0.00	1.00			
Alt. Assets	Real Estate	0.61	0.67	0.68	0.60	0.53	0.32	0.63	-0.10	0.34	0.38	0.42	0.41	-0.02	1.00		
	Currency	-0.03	-0.01	0.04	0.03	0.05	0.10	-0.03	0.11	0.10	0.02	0.05	0.01	0.63	0.07	1.00	
	Commodities	0.30	0.36	0.31	0.43	0.43	0.12	0.28	-0.12	0.44	0.30	0.46	0.44	0.24	0.19	-0.02	1.00



Sources: BlackRock; Informa Investment Solutions. Past correlations are no guarantee of future correlations. It is not possible to invest directly in an index. Large Cap is represented by the S&P 500 Index. Mid Cap is represented the S&P 400 Mid Cap Index. Small Cap is represented by the S&P 600 Small Cap Index. International is represented by the MSCI EAFE Index. Emerging Markets are represented by the MSCI Emerging Markets Index. Corporate Fixed Income is represented by the Barclays Credit Index. High Yield Fixed Income is represented by the Barclays US High Yield Index. Treasuries are represented by the Barclays US Treasury Index. Long/Short is represented by the Dow Jones/Credit Suisse Long Short Equity Index. Market Neutral is represented by the Dow Jones/Credit Suisse Equity Market Neutral Index. Event Driven is represented by the Dow Jones/Credit Suisse Event Driven Index. Fixed Income Arbitrage is represented by the Dow Jones/Credit Suisse Fixed Income Arbitrage Index. Managed Futures is represented by the Barclay CTA Index. Real Estate is represented by the NAREIT All Equity Index. Currency is represented by the Barclay Currency Traders Index. Commodities is represented by the Goldman Sachs Commodity Index.

# Small Endowments Employ Enhanced Diversification



Source: 2013 NACUBO-Commonfund Study of Endowment Results. Reflects the period ending June 30, 2013, the latest available data for the annual study. Overall, the study included 835 Institutions (533 Private college and university endowments, 70 Public educational endowments, 183 Institution-related foundations (IRF) and 49 Combined public endowments/foundations) holding \$448.6 billion in assets. Data was segmented referencing: 82 institutions over \$1 billion, 70 institutions between \$501 million to \$1 billion, 261 institutions between \$101 to \$500 million, 166 institutions between \$51 to \$100 million, 125 institutions between \$25 to \$50 million and 131 institutions under \$25 million. The selected examples shown above were chosen based on asset size to represent large, medium and small endowments. Allocation percentages exclude Cash.

## The Way Forward

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# Defining Alternative Assets and Alternative Strategies

## No Industry-Standard Definition

- ▶ Morningstar, Lipper and industry reports all define these alternative strategies and alternative asset classes differently.

## Alternatives Are Simply “Alternative” to Traditional Debt and Equity

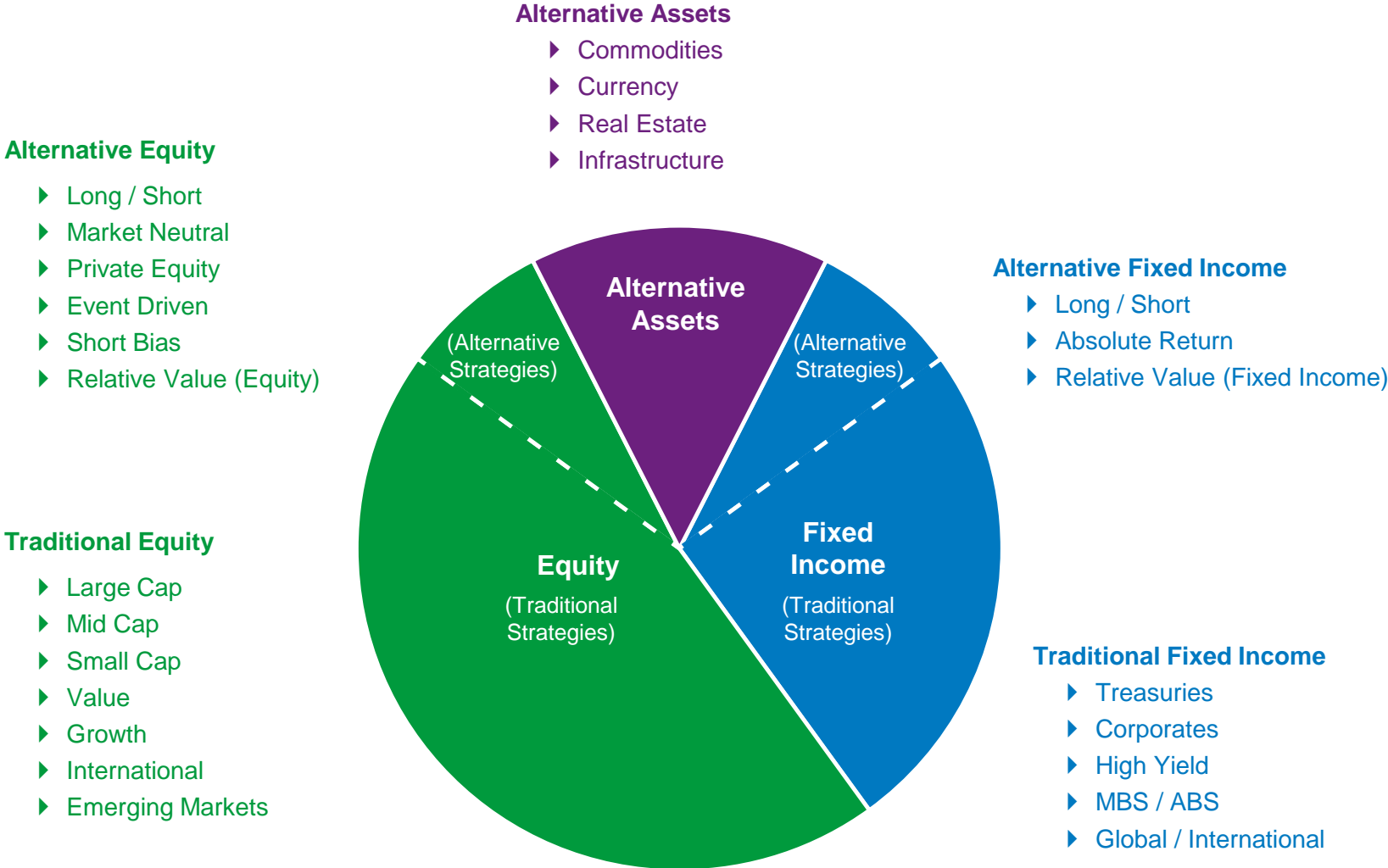
Alternative Asset Classes
Commodities
Currency
Real Estate
Infrastructure
Real Assets
Renewable Energy

Alternative Strategies
Equity (long / short or private)
Bonds (arbitrage or distressed)



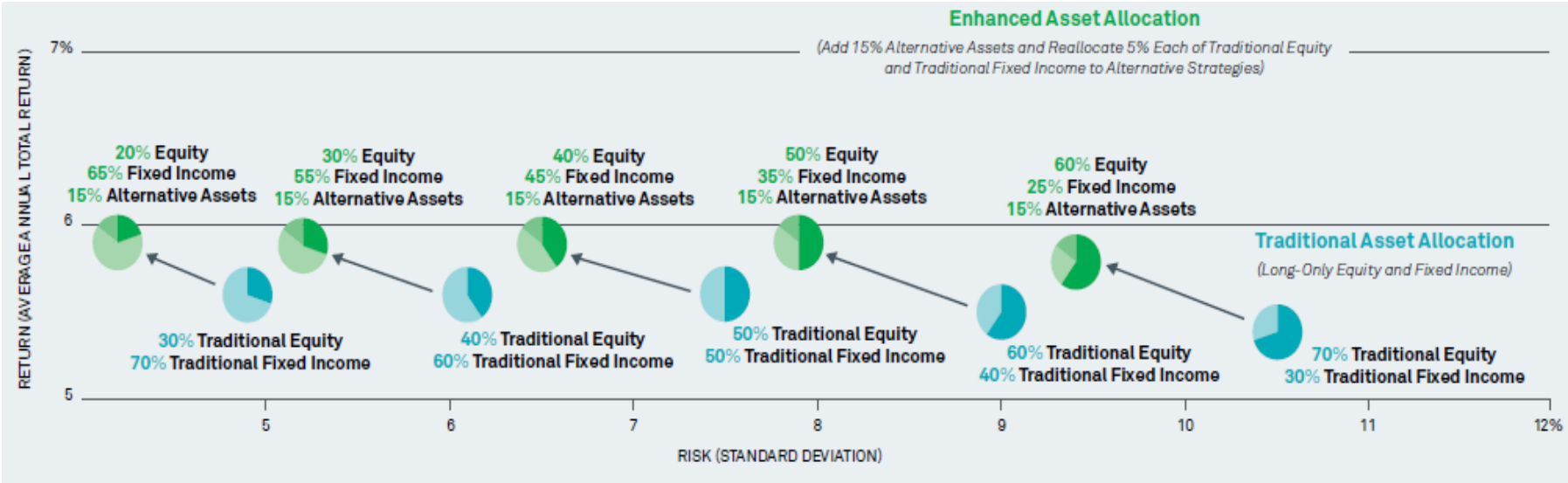
# Need to Evolve Asset Allocation



The chart above is for illustrative purposes only and does not seek to represent the asset allocation for all investors.

# The Impact to Return and Risk Over Time

## Alternative Strategies and Assets Can Expand the Efficient Frontier (1999–2013)



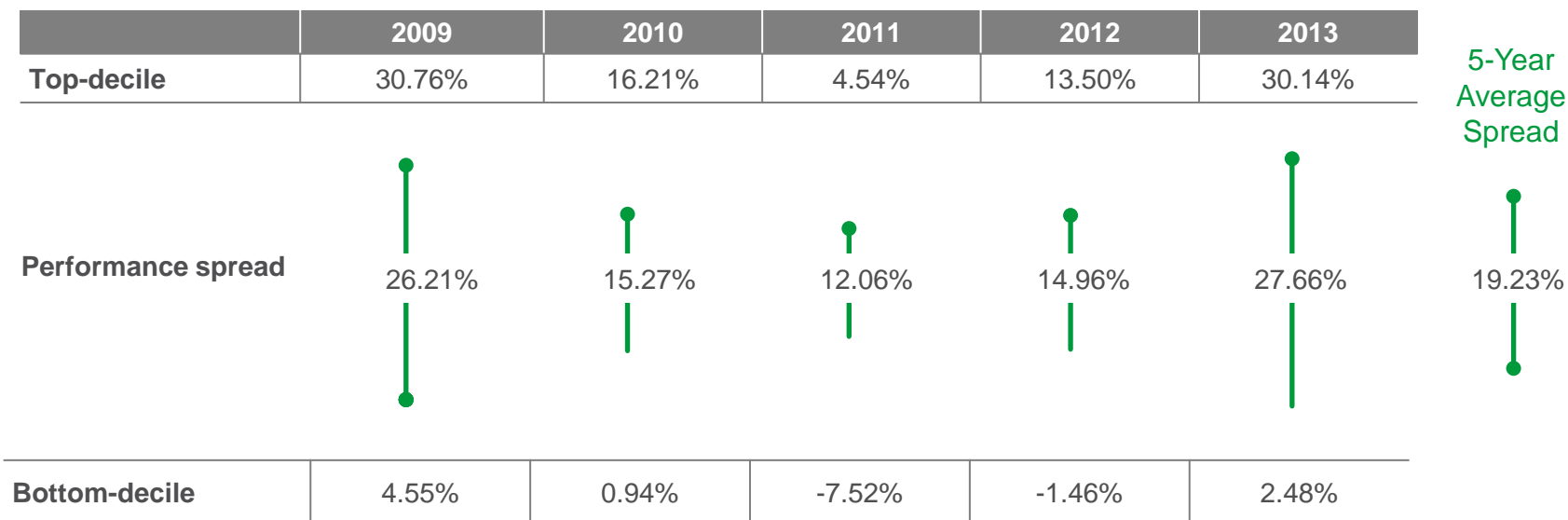
Sources: BlackRock; Informa Investment Solutions. Equity is represented by the S&P 500 Index. Fixed Income is represented by the Barclays US Aggregate Bond Index. Enhanced portfolios include a 15% allocation to alternative assets, a 5% allocation to alternative equity strategies within the equity allocation and a 5% allocation to alternative fixed income strategies within the fixed income allocation. To fund these additional allocations, the equity allocation of each traditional portfolio is reduced by 15% and the fixed income allocation is reduced by 10%. The 15% allocation to alternative assets is represented by a 5% allocation to the Goldman Sachs Commodity Index, a 5% allocation to the Barclay Currency Traders Index and a 5% allocation to the NAREIT Equity Index. The 5% allocation to alternative equity strategies is represented by the Dow Jones/Credit Suisse Long Short Equity Index. The 5% allocation to alternative fixed income strategies is represented by the Dow Jones/ Credit Suisse Fixed Income Arbitrage Index..

# Manager Skill is Vital When Selecting an Alternative Strategy

- ▶ Alternatives are more driven by manager skill (alpha) vs. traditional asset classes / categories where market (beta) typically drives overall returns
- ▶ Over the last 5 years, the average performance difference between the top decile / bottom decile performers in the long/short category was 19.23% vs. 11.60% for a traditional category (large blend)

## A huge gap between good and bad performance

Performance spread between top- and bottom-decile, Morningstar Long/Short Equity Funds



Source: Morningstar, as of 12/31/13. Performance is historical and does not guarantee future results.

## Failure of Traditional Diversification

- ▶ Return environment completely changed
- ▶ Correlations went up when you needed them most

## Redefining Diversification

- ▶ Need to move beyond traditional risk/return optimization and diversify by risk source
- ▶ Enhanced diversification moves beyond long-only equity and fixed income

## The Way Forward – Practical Application

- ▶ Enhanced diversification includes alternative assets and alternative strategies for equity and fixed income
- ▶ Enhanced diversification potentially reduces risk, increases diversification and long-term total return
- ▶ Manager and investment vehicle is more critical in the alternative strategy space

## Potential Alternative Investment Risks

**Commodities:** The commodities markets have experienced periods of extreme volatility. Concentrating investments in natural resources industries can be affected significantly by events relating to those industries, such as variations in the commodities markets, weather, disease, embargoes, international, political and economic developments, the success of exploration projects, tax and other government regulations and other factors.

**Derivatives:** Investing in derivatives entails specific risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Futures trading can quickly lead to large losses as well as gains. Such trading losses can sharply reduce the value of your investment.

**Mortgages:** The principal on mortgage- or asset-backed securities normally may be prepaid at any time, which will reduce the yield and market value of those securities.

**Short Selling:** Short selling entails special risks. If your investments make short sales in securities that increase in value, your investments will lose value. Any loss on short positions may or may not be offset by investing short-sale proceeds in other investment

**Liquidity:** Investments in alternatives assets or strategies may be or may become illiquid, their marketability may be restricted and the realization of investments from them may take considerable time and/or be costly, in particular because your investments may have restrictions that allow redemptions only at specific infrequent dates with considerable notice periods and apply lock-ups and/or redemption fees.

**Leverage:** Leverage may increase the risk of investment loss and performance of an investment which employs leverage may be volatile. The use of financial instruments or borrowed funds often amplifies performance. In an upward- or downward-trending market, a leveraged investment that is on the correct side of the trend will see magnified gains, while one on the wrong side of the trend will see magnified losses.

**Currency:** Investments in currency may be adversely affected by changes to exchange rates. Currency depreciation can negatively affect the value of one's assets, investments, and their related interest and dividend payment streams, especially those securities denominated in foreign currency.

**Real Estate:** The performance of real estate investments is linked to the performance of the real estate markets. Property values may fall due to increasing vacancies or declining rents resulting from economic, legal, or cultural developments. Prices also may drop because of the failure of borrowers to pay their loans or poor management.

# Asset Class and Strategy Index Definitions

**Long-Short - Dow Jones Credit Suisse AllHedge Long/Short Equity Index:** The Dow Jones Credit Suisse AllHedge Long/Short Equity Index<sup>SM</sup> is a subset of the Dow Jones Credit Suisse AllHedge Index<sup>SM</sup> that measures the aggregate performance of long/short equity funds. Long/short equity funds typically invest in both long and short sides of equity markets, generally focusing on diversifying or hedging across particular sectors, regions or market capitalizations. Managers typically have the flexibility to shift from value to growth; small to medium to large capitalization stocks; and net long to net short. Managers can also trade equity futures and options as well as equity related securities and debt or build portfolios that are more concentrated than traditional long-only equity funds.

**Mkt Neutral - Dow Jones Credit Suisse Equity Market Neutral Index:** The Dow Jones Credit Suisse AllHedge Equity Market Neutral Index<sup>SM</sup> is a subset of the Dow Jones Credit Suisse AllHedge Index<sup>SM</sup> that measures the aggregate performance of equity market neutral funds. Equity market neutral funds typically take both long and short positions in stocks while seeking to reduce exposure to the systematic risk of the market (i.e., a beta of zero is desired). Equity Market Neutral funds typically seek to exploit investment opportunities unique to a specific group of stocks, while maintaining a neutral exposure to broad groups of stocks defined for example by sector, industry, market capitalization, country, or region. The index has a number of subsectors including statistical arbitrage, quantitative long/short, fundamental long/short and index arbitrage. Managers often apply leverage to enhance returns.

**Event Driven - Dow Jones Credit Suisse Event Driven Index:** The Dow Jones Credit Suisse AllHedge Event Driven Index<sup>SM</sup> is a subset of the Dow Jones Credit Suisse AllHedge Index<sup>SM</sup> that measures the aggregate performance of event driven funds. Event driven funds typically invest in various asset classes and seek to profit from potential mispricing of securities related to a specific corporate or market event. Such events can include: mergers, bankruptcies, financial or operational stress, restructurings, asset sales, recapitalizations, spin-offs, litigation, regulatory and legislative changes as well as other types of corporate events. Event driven funds can invest in equities, fixed income instruments (investment grade, high yield, bank debt, convertible debt and distressed), options and various other derivatives. Many managers may use a combination of strategies and adjust exposures based on the opportunity sets in each subsector.

**FI Arb. - Dow Jones Credit Suisse Fixed Income Arbitrage Index:** The Dow Jones Credit Suisse AllHedge Fixed Income Arbitrage Index<sup>SM</sup> is a subset of the Dow Jones Credit Suisse AllHedge Index<sup>SM</sup> that measures the aggregate performance of fixed income arbitrage funds. Fixed income arbitrage funds typically attempt to generate profits by exploiting inefficiencies and price anomalies between related fixed income securities. Fixed income arbitrage funds seek to limit volatility by hedging out exposure to the market and interest rate risk. Strategies may include leveraging long and short positions in similar fixed income securities that are related either mathematically or economically. The sector includes credit yield curve relative value trading involving interest rate swaps, government securities and futures; volatility trading involving options; and mortgage-backed securities arbitrage (the mortgage-backed market is primarily U.S.-based and over-the-counter).

## Asset class and strategy index definitions

**Mgd Futures - Dow Jones Credit Suisse Managed Futures Index:** The Dow Jones Credit Suisse AllHedge Managed Futures Index<sup>SM</sup> is a subset of the Dow Jones Credit Suisse AllHedge Index<sup>SM</sup> that measures the aggregate performance of managed futures funds. Managed futures funds (often referred to as CTAs or Commodity Trading Advisors) typically focus on investing in listed bond, equity, commodity futures and currency markets, globally. Managed futures fund managers tend to employ systematic trading programs that largely rely upon historical price data and market trends. A significant amount of leverage is often employed since the strategy involves the use of futures contracts. CTAs tend not to have a particular bias towards being net long or net short any particular market.

**Real Estate - NAREIT All Equity Index:** NAREIT stands for the National Association of Real Estate Investment Trusts, a trade organization focused on REITs. For investors, NAREIT publishes information and performance data related to REITs. This NAREIT data can also be useful to other real estate investors as a proxy for the current attractiveness of specific real estate sectors. NAREIT does show that equity REIT performance has historically been favorable relative to some other asset equity investments, such as the S&P 500. For REIT managers, NAREIT publishes guidelines on performance reporting. For accountants, NAREIT provides commentary on REIT-specific accounting issues.

**Currency - Barclay Currency Traders Index:** An equal weighted composite of managed programs that trade currency futures and/or cash forwards in the interbank market. In 2004, there are 72 currency programs included in the index.

**Commodities - S&P Goldman Sachs Commodity Index:** The S&P GSCI<sup>TM</sup> is also designed to be a “tradable” index, readily accessible to market participants and cost efficient to implement. The index is calculated primarily on a world production-weighted basis and is comprised of the principal physical commodities that are the subject of active, liquid futures markets. As a result, the index is widely recognized as a leading measure of general price movements and inflation in the world economy. In order to reflect the performance of a total return investment in commodities, Standard & Poor’s calculates four separate but related indices based on the S&P GSCI<sup>TM</sup> and a number of sub-indices representing components of the S&P GSCI<sup>TM</sup>. The composition of the S&P GSCI<sup>TM</sup> is reviewed on a monthly basis.

## Important Notes

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3/14

USR-3554



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