



# Strategie fattoriali, sostenibilità e fixed income

L'evoluzione delle strategie indicizzate e le loro prevalenti applicazioni durante la riapertura dell'economia

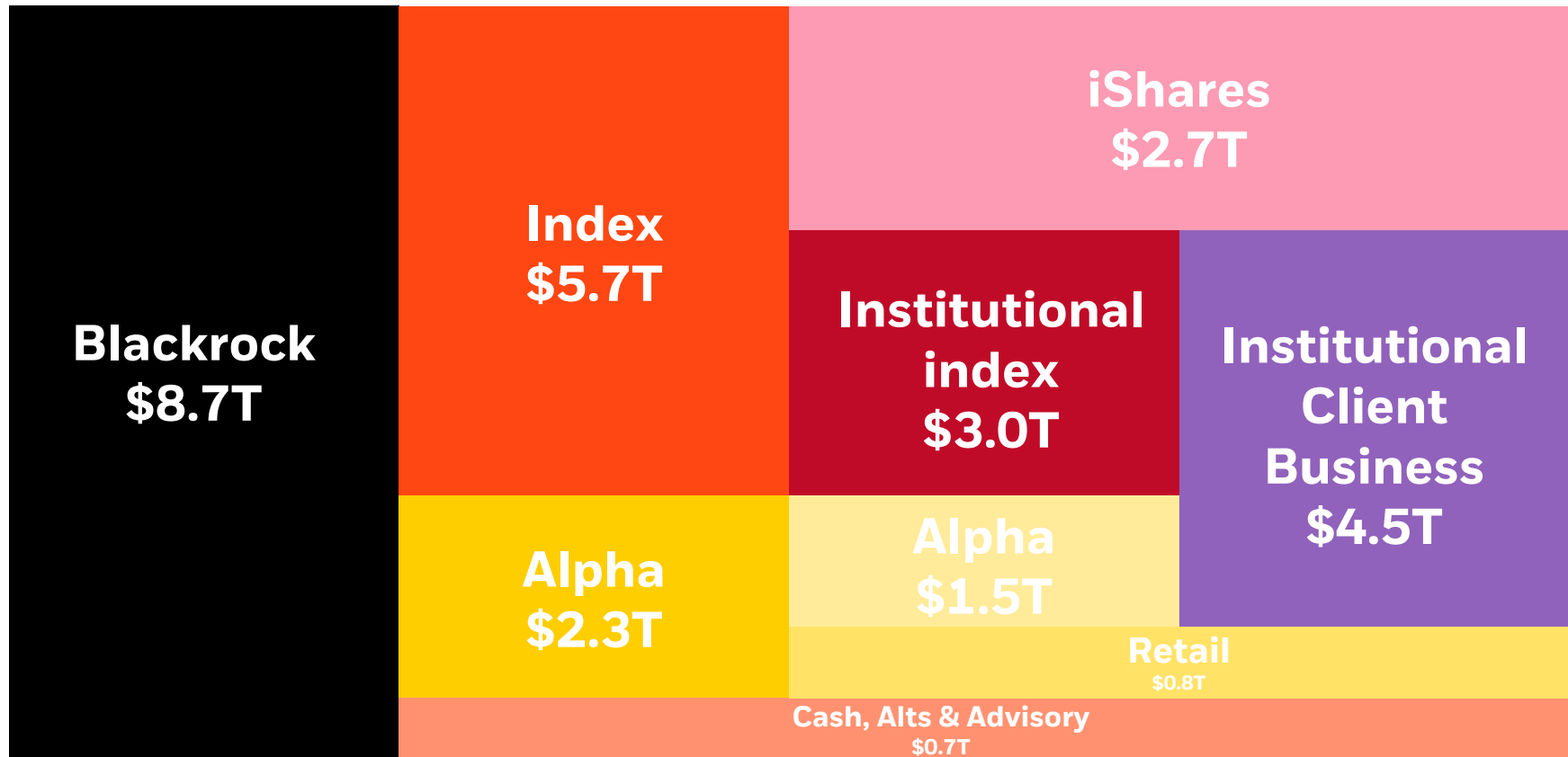


**Enrico Camerini**  
**Head of Institutional Clients Italy – iShares and Index Investments**

**Mefop 26/05/2021**

FOR PROFESSIONAL CLIENTS ONLY

# BlackRock in a nutshell



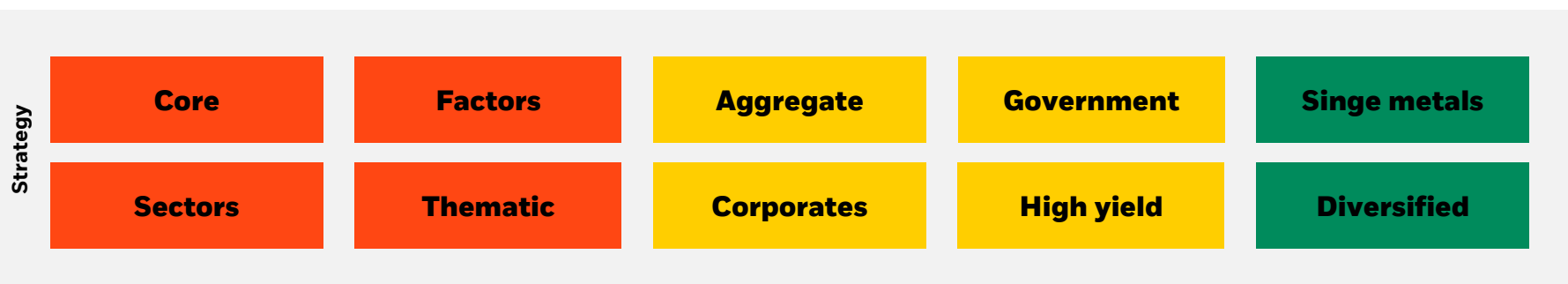
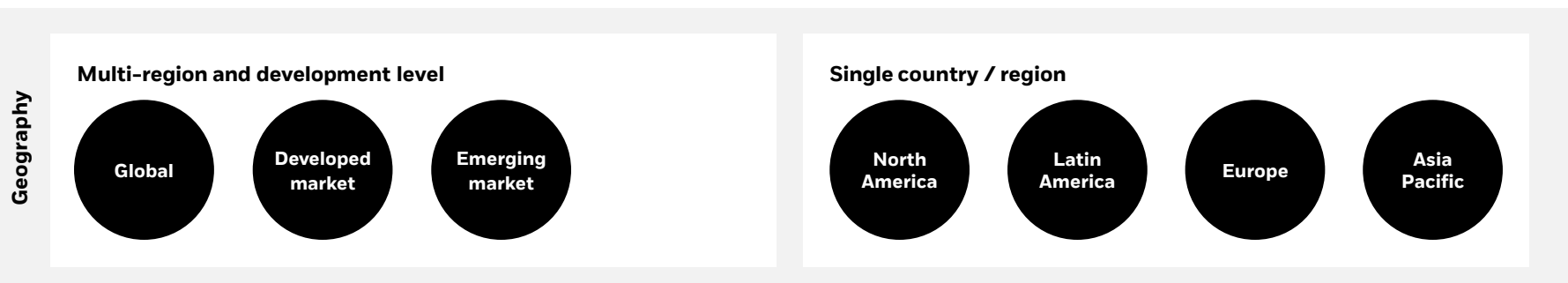
Source: BlackRock annual report. Data per 31/12/2020. All figures are represented in USD.

# iShares EMEA platform snapshot

**Equity**  
**\$387bn**

**Fixed income**  
**\$188bn**

**Commodity**  
**\$17bn**



**Currency hedging**

**iShares offers the broadest range of sustainable index funds in the industry across a comprehensive spectrum of outcomes and exposures, powered by the scale, breadth, and expertise of BlackRock.**

For illustrative purposes only. Source: BlackRock, as at 31 March, 2021.



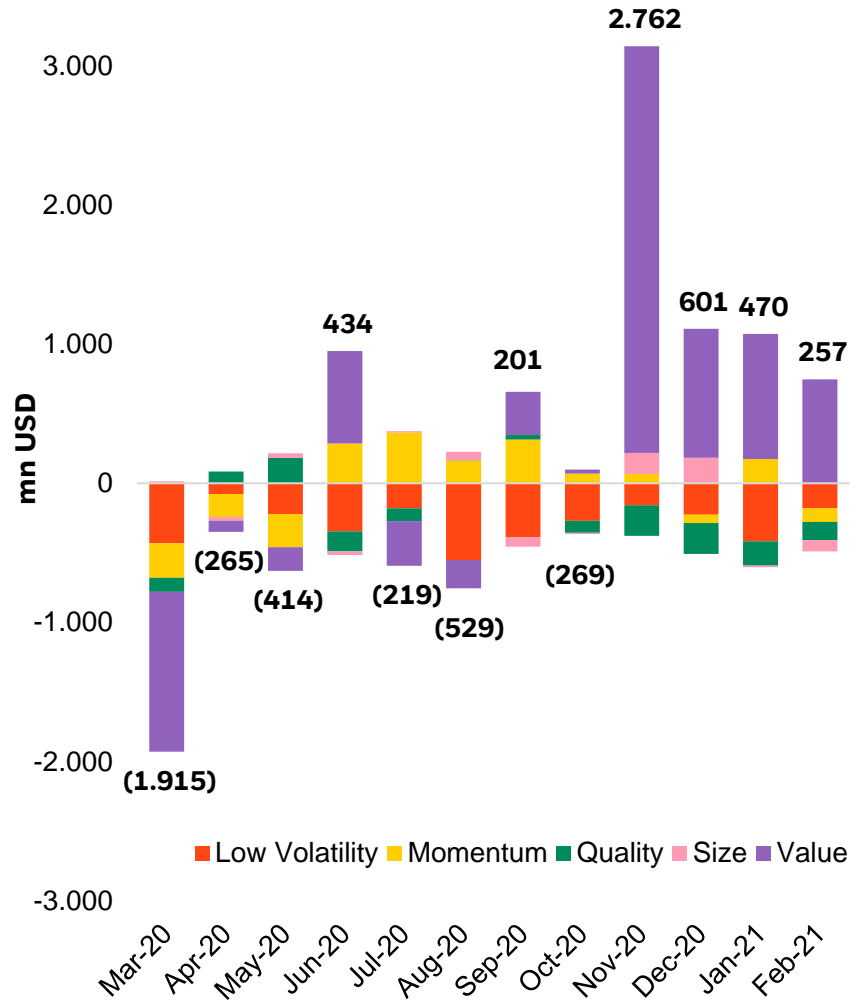
# Harvesting factor premia: Value



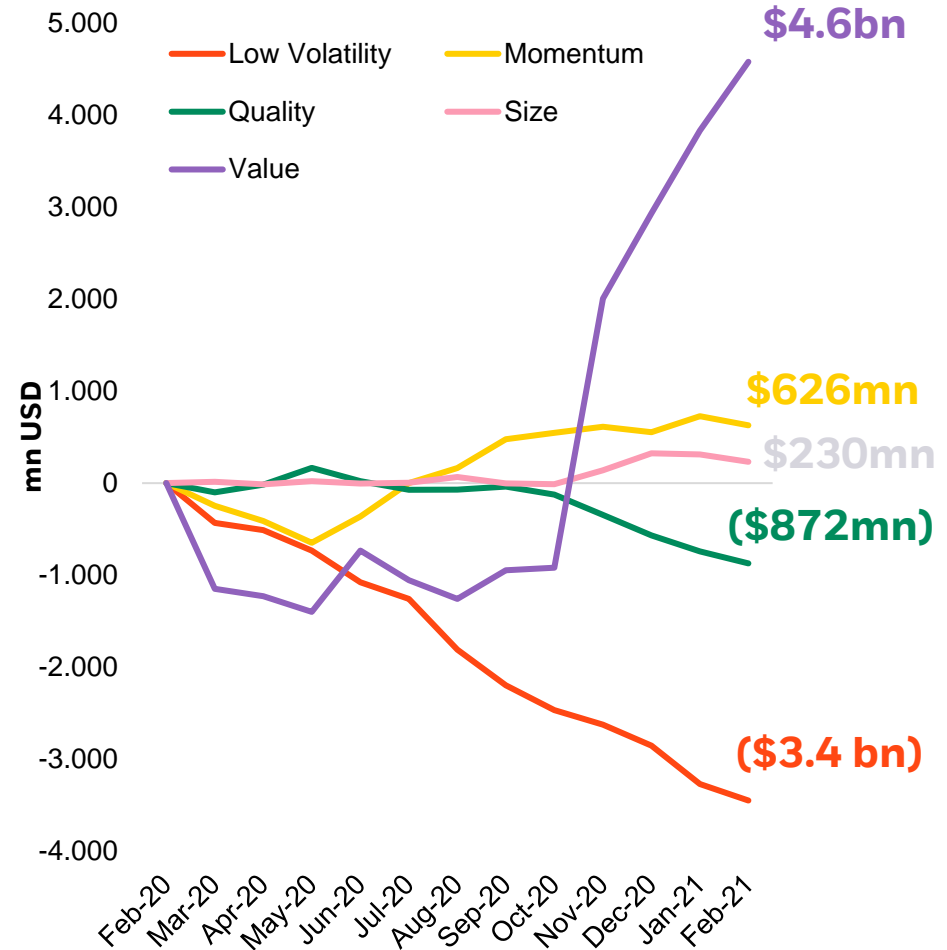


# Factor ETFs Industry Flows

## Monthly Flows Breakdown in mn USD

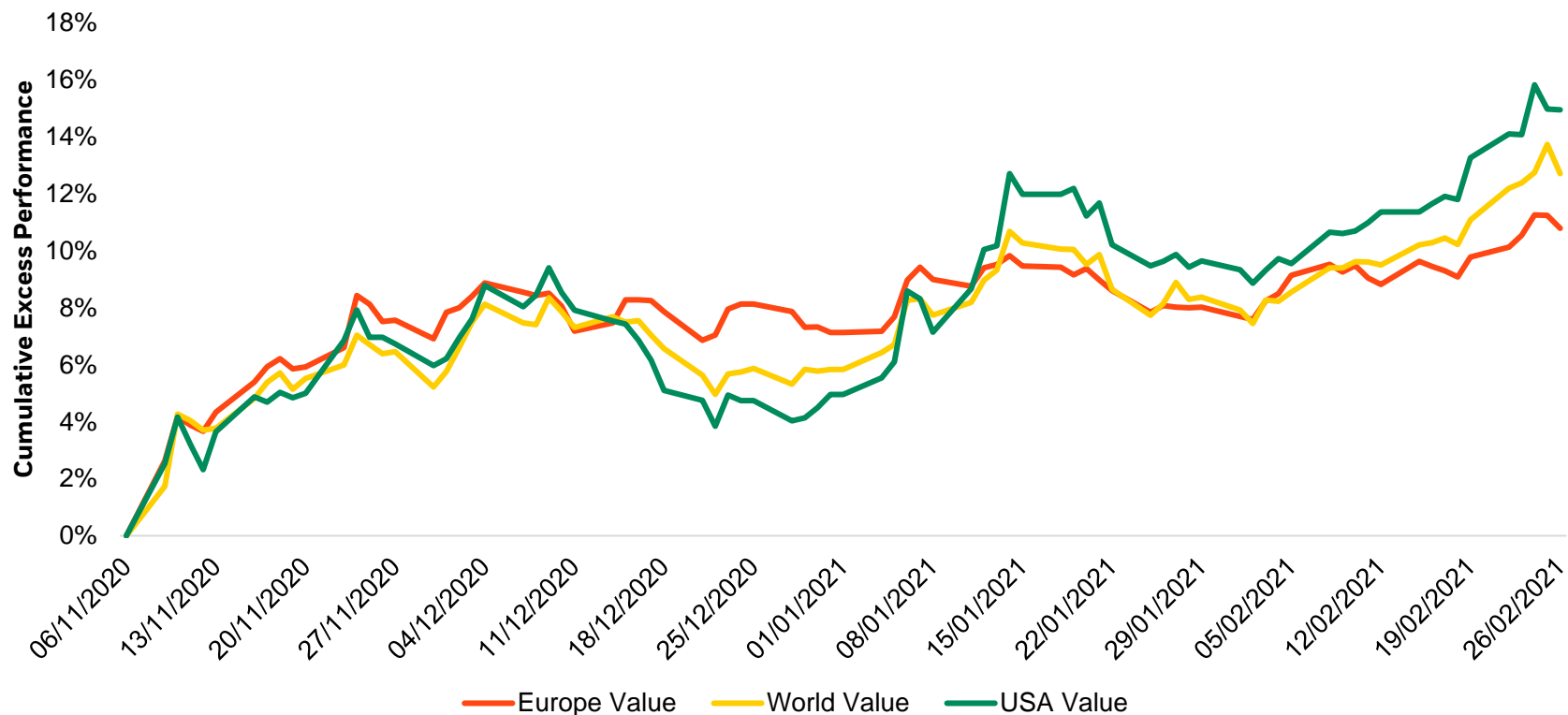


## Zooming in the recent weeks



Source: BlackRock ETP Landscape as of 26/02/2021.

# Strong comeback for Value



	29/02/2016	28/02/2017	28/02/2018	28/02/2019	28/02/2020	28/02/2020
	28/02/2017	28/02/2018	28/02/2019	28/02/2020	28/02/2020	26/02/2021
Europe Value	19.40%	5.38%	-2.85%	-3.55%	-3.55%	8.57%
World Value	24.70%	18.76%	-6.97%	-5.00%	-5.00%	17.89%
USA Value	31.12%	15.50%	-2.04%	-1.96%	-1.96%	25.77%

**The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.**

Source: MSCI and JP Morgan as of 26/02/2021. Index returns are NTR USD for the period 29/02/2016 – 26/02/2021. Index returns are for illustrative purposes only. MSCI USA Enhanced Value Index denoted as USA Value; World Enhanced Value Index denoted as World Value; MSCI Europe Enhanced Value Index denoted as Europe Value. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

# How to harness Value strategies?

## Measurement matters

While we can observe market prices for traded stocks, intrinsic value must be estimated, and the measures that are used matter.

## Targeted style exposure

A new wave of style indices offers enhanced opportunities for implementing this popular tilt. The factor weighting and more concentrated positioning of style factor indices offer stronger exposure to the value factor than market cap weighted alternatives.

## Implementation

Seeking Outperformance: By tilting toward value investors can aim for returns above the market. But value strategies are cyclical, and will have periods of underperformance. Holding complementary factor exposures may offer diversification benefits.

Source: BlackRock, as of 26/02/2021. For illustrative purposes only.

# Targeted style exposure: considering sectors

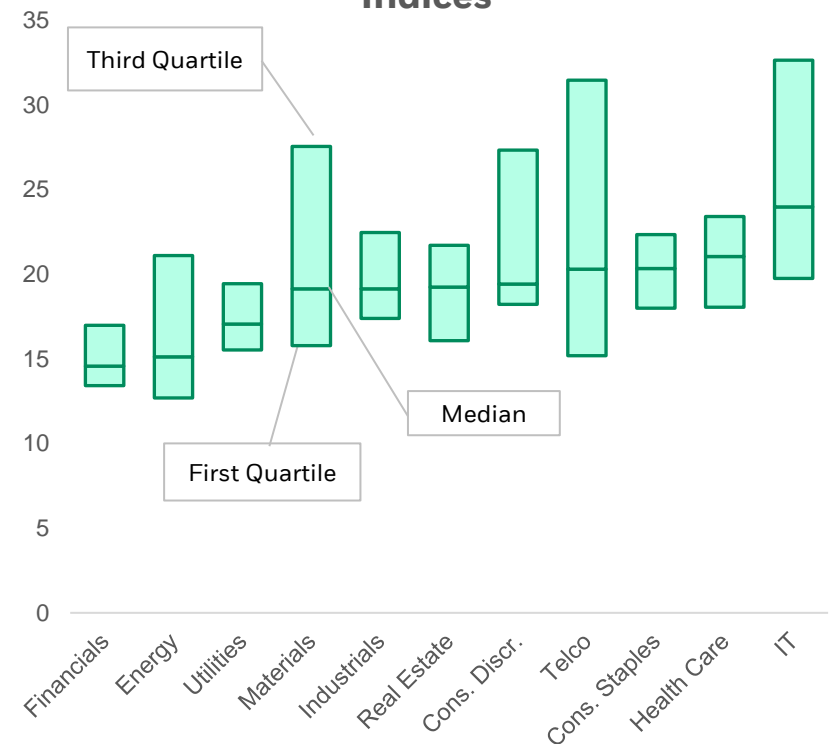
Valuations are highly sector-dependent as some sectors are historically cheaper than others. A **sector-relative Value scoring** allows us to limit the sector bias on the companies and help to **capture the true value premium**.

<b>P/B</b> <b>Price-to-book</b>	<p>Most academic studies focus on price-to-book value. The risk of this metric is that certain stocks remain cheap for a reason. Practitioners call this the “value trap” – an investor is attracted to a stock because it appears inexpensive, but its price never improves.</p>
<b>Fwd P/E</b> <b>Forward Price/Earning</b>	<p>To help mitigate this risk of value traps, we can use a forward-looking valuation ratio that embeds analysts' expectations.</p>
<b>EV/CFO</b> <b>Enterprise Value-to-cash flow from operations</b>	<p>Earnings may contain transitory components that are reversed, or they may be high because of temporary financial transactions compared to more permanent operational changes. Additionally, a company may appear cheap in relation to its equity outstanding, but it may be expensive when considering the debt it has taken on in lieu of issuing stock.</p>

Source: BlackRock, Bloomberg, as of 26/02/2021. Figures shown are the P/E Ratios of the MSCI Developed Markets Sector Indices for the time period Dec 1999 to Feb 2021. Ratios are measured on a monthly basis. Characteristics are subject to change.

Sector idiosyncrasies could lead to significant sector bets

**P/E Ratios for MSCI World Sector Indices**



Source: MSCI, as of 26/02/2021.

<sup>1</sup> Securities which are classified in the Financials sector just use Fwd P/E and P/B while securities in the Real Estate sector just use EV/CFO.

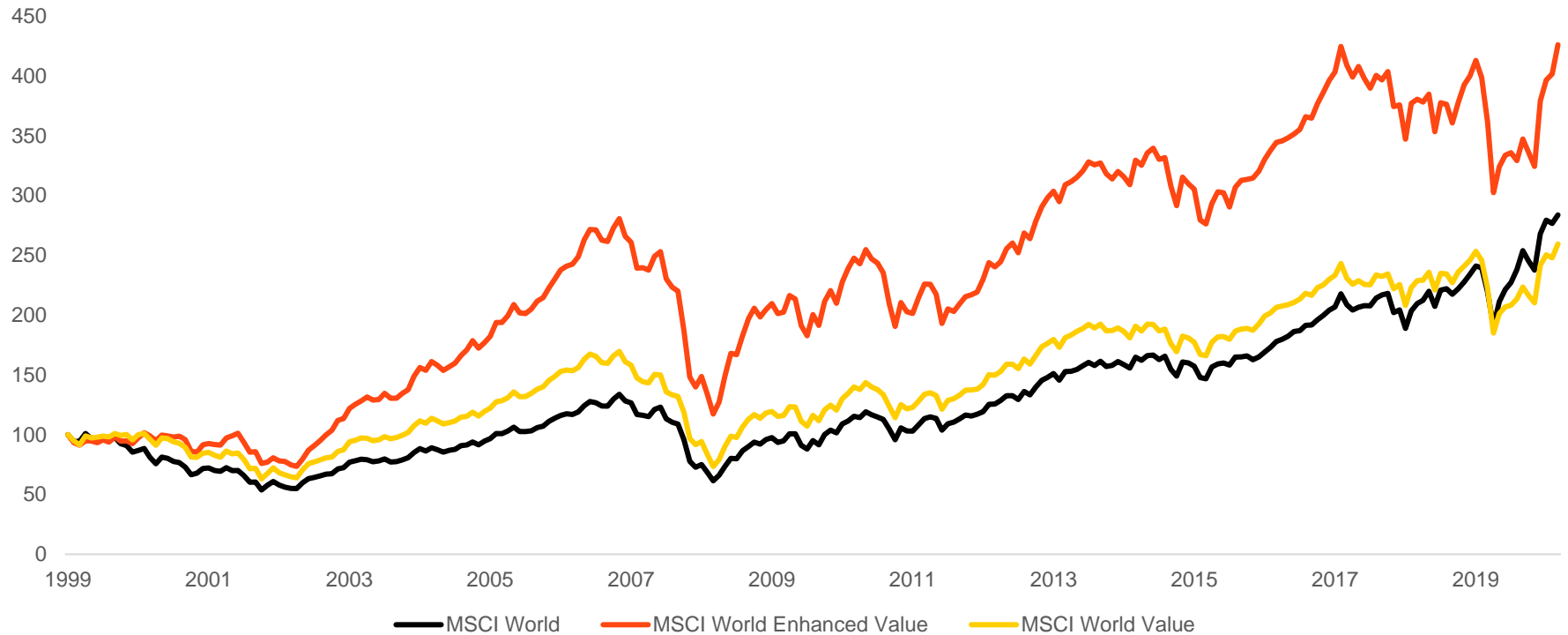


# Index Methodologies

	MSCI Value Indices	MSCI Enhanced Value Indices
<b>Customized index</b>	No	Yes
<b>Metrics</b>	Price to Book Value ratio (P/BV) 12-month Forward Price to Earnings ratio (Fwd P/ E) Price to Dividend ratio (P / D)	Price to Book Value ratio (P/BV) 12-month Forward Price to Earnings ratio (Fwd P/ E) Enterprise Value to Operating Cash Flow (EV / CFO)
<b>Z-Score for Metrics</b>	$Z = \frac{x - \mu_{mcap-weighted}}{\sigma_{mcap-weighted}}$	
<b>Value score</b>	$Value\ Z\_Score = \frac{1}{3}(Z_{P/B} + Z_{Fwd\ P/E} + Z_{P/D})$	$Value\ Z\_Score = \frac{1}{3}(Z_{P/B} + Z_{Fwd\ P/E} + Z_{EV/CFO})$
<b>Sector neutrality</b>	No	$Z_{rel} = \frac{Value\ Z\_Score - \mu_{sector}}{\sigma_{sector}}$
<b>Final Value Score</b>	$Value\ Z\_Score = \frac{1}{3}(Z_{P/B} + Z_{Fwd\ P/E} + Z_{P/D})$	$Value\ Z\_Score\_relative = \begin{cases} 1 + Z_{rel}, & Z_{rel} \geq 0 \\ (1 - Z_{rel})^{-1}, & Z_{rel} < 0 \end{cases}$
<b>Weighting Scheme</b>	Market Capitalization Weight * Final Value Score	
<b>Security Selection</b>	Achieving the 50% free float-adjusted market capitalization	Min. 30% free float-adjusted market capitalization

Source: BlackRock and MSCI, as of 26/02/2021.

# Global Value Strategies - Performance

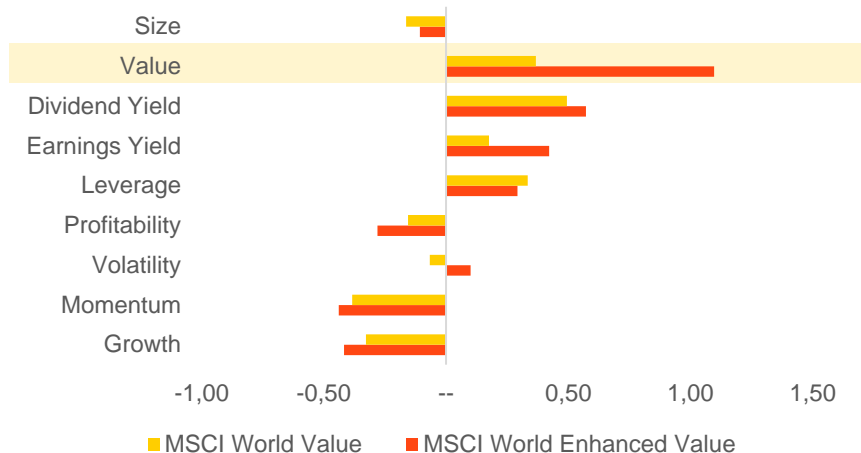


	Ann. return %	Ann. std %	Ratio	Beta	Max DD %	TE	IR	29/02/2016 28/02/2017	28/02/2017 28/02/2018	28/02/2018 28/02/2019	28/02/2019 28/02/2020	28/02/2020 26/02/2021
<b>MSCI World</b>	<b>5.05%</b>	<b>15.54%</b>	<b>0.33</b>	<b>1.00</b>	<b>54.03%</b>			<b>21.26%</b>	<b>17.36%</b>	<b>0.43%</b>	<b>4.63%</b>	<b>29.34%</b>
MSCI World Enhanced Value	7.09%	17.70%	0.40	1.07	58.24%	6.04%	0.34	24.70%	18.76%	-6.97%	-5.00%	17.89%
MSCI World Value	4.61%	15.95%	0.29	1.00	56.78%	3.70%	-0.12	24.42%	11.76%	-0.89%	-2.83%	16.74%

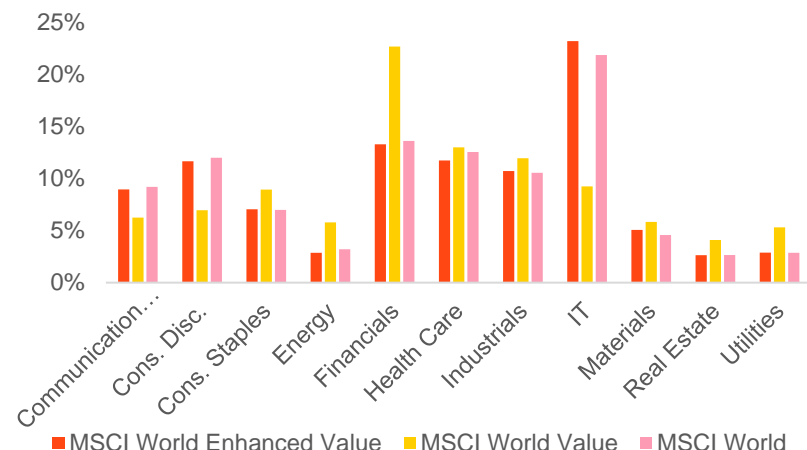
**The figures shown relate to simulated past performance. Simulated past performance is not a reliable indicator of current or future results.** Source: MSCI as of 26/02/2021. Index returns are NTR USD for the period 31/12/1999 – 26/02/2021. Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. The value of an investment can fall as well as rise and you may not get back the original amount invested. There is a risk that the entire amount invested may be lost. BlackRock makes no representations or warranties as to the accuracy or completeness of any past, estimated or simulated performance results contained herein, and further nothing contained herein shall be relied upon as a promise by, or representation by BlackRock whether as to past or future performance results. This analysis contains back-tested index data. Data for time periods prior to the index inception date is hypothetical and is provided for informational purposes only to indicate historical performance had the index been available over the relevant time period.

# Global Value Strategies - Characteristics

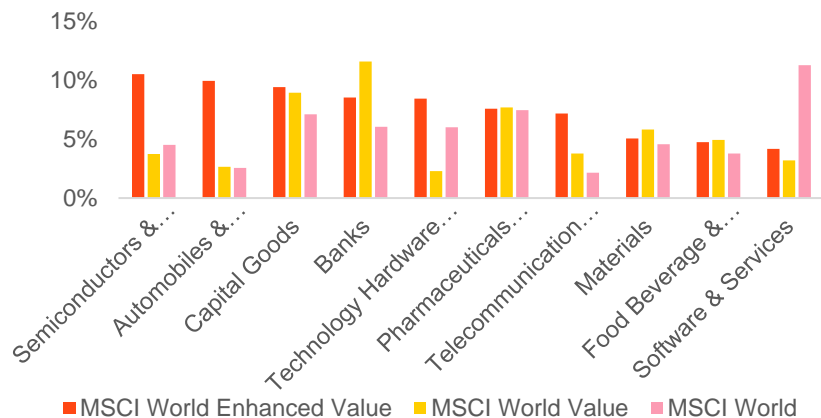
## Factor Exposure vs. MSCI World Index



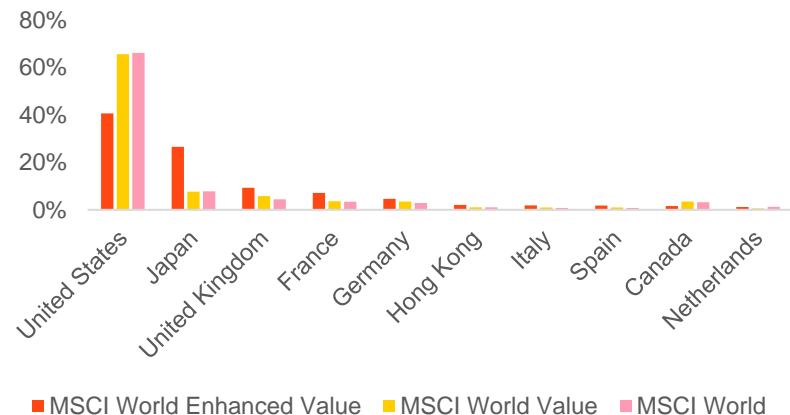
## Sector Exposure



## Industry Group Exposure (Top 10)



## Country Exposure (Top 10)

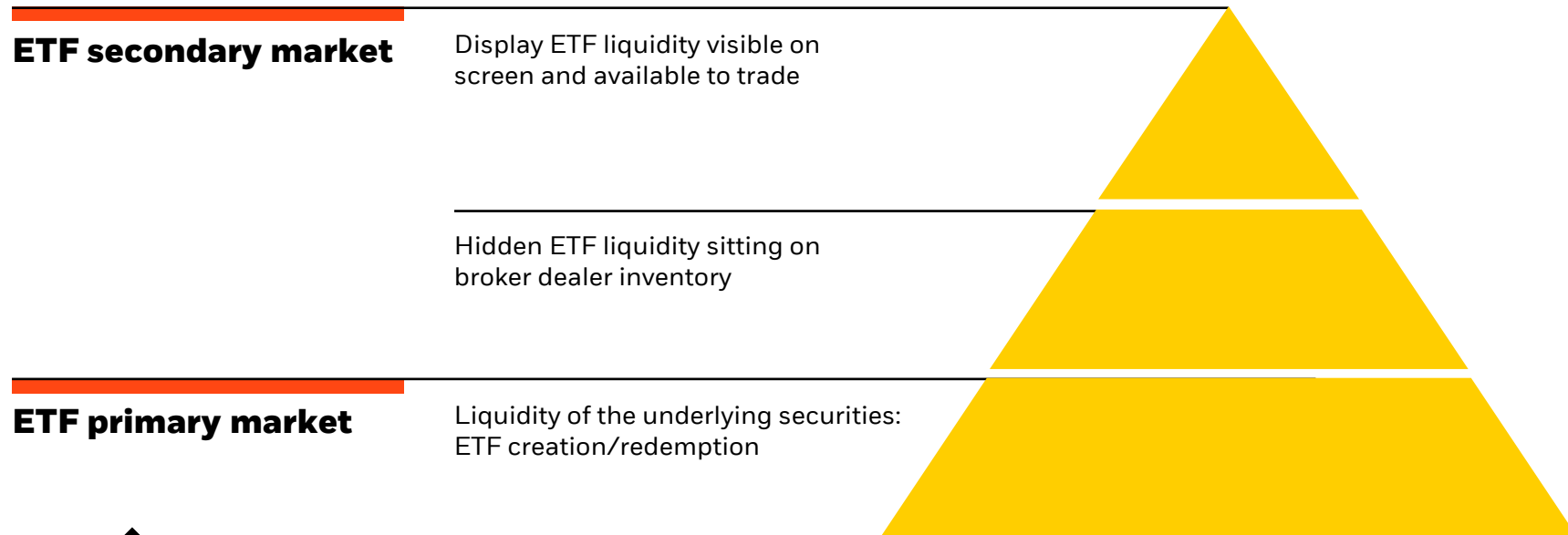


Source: BlackRock and MSCI, as of 26/02/2021. BlackRock World Risk Model is used. Characteristics are subject to change.

# **Fixed income ETF liquidity & Covid-19 case study**



# ETF secondary market provides an additional layer of liquidity



## For example

A well-known \$HY ETF trades \$2.5B each day in the secondary market, while its underlying securities (ETF primary market) trade in excess of \$15B per day.

**\$2.5B**

**\$15B**

Source: Bloomberg, TRACE, as at 31 December 2020. All amounts given is USD. For illustrative purposes only. Underlying securities refer to the stocks or bonds held within the ETF.



# Flagship funds & options availability

		FUND					OPTIONS		
	Ticker	AUM (B)	3m ADV (M)	TER (%)	Spread (bp)	Largest Print (M)	Listing	Exchange	Currency
IG	IEAC (€ IG)	€10.2	\$230	0.20	4	\$900 (Buy)	IEAC LN	Eurex	EUR
	LQDE (\$IG)	\$6.3	\$91	0.20	9	\$456 (Buy)	LQDE LN	Eurex	USD
HY	IHYG (€HY)	€5.8	\$133	0.50	5	\$215 (Buy)	IHYG LN	Eurex	EUR
	IHYU (\$HY)	\$7.4	\$65	0.50	8	\$264 (Buy)	IHYU LN	Eurex	USD
EM	IEMB (\$EM)	\$10.8	\$84	0.45	8	\$550 (Buy)	IEMB LN	Eurex	USD
	IEML (EM local)	\$5.8	\$73	0.50	12	\$275 (Sell)	-	-	-

## Select precision funds

	Ticker	AUM (M)	3m ADV (M)	TER (%)	Spread (bp)
IG	IRCP (€ IG interest rate hedged)	\$744	\$5	0.25%	7
	IE15 (€ IG 1-5Y)	€4,156	\$32	0.20%	4
XO	IEBB (€ BBB-BB)	€799	\$8	0.25%	8

References to specific investments are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such investments.

Source: BlackRock, as of 31 March 2021.

# An active ETF unit lending market has improved liquidity & allows investors to earn additional income

## \$3.4B

record FI ETF unit borrow demand in March

### IEAC

## >\$400m

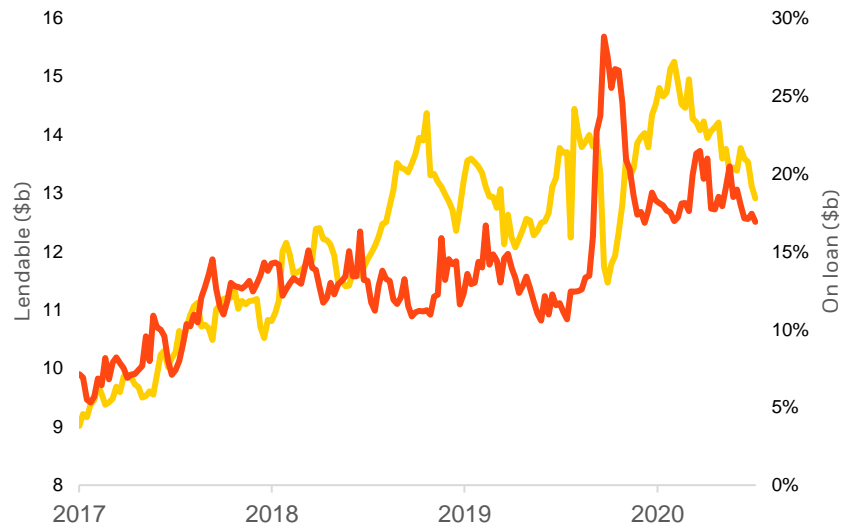
on loan

### IHYG

## >\$200m

on loan

### European Listed FI ETF lending



Source: IHS Markit, as of 30/12/2020.

Bloomberg Ticker	TER	12m Avg ETF Unit Lendable Supply (\$m)	12m Avg ETF Unit On Loan Balances (\$m)	ETF Unit 12m Avg Return to Lendable (bp)	% TER Reduction
IEAC LN	20	453	435	44	220%
IHYG LN	50	490	236	69	138%
IEML LN	50	835	154	9	18%
IHYU LN	50	653	125	11	22%
LQDE LN	20	841	98	5	25%
IEMB LN	45	517	163	22	50%

Source: IHS Markit. Return to lendable is defined as the total lending income generated by all the ETF unit loans, divided by the average market value of all the ETF units available for lending during the 12 months ended 30/12/20. Figures provided do not include fees paid to lending agents. Additional lending supply may impact ETF Unit return to lendable.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. With securities lending there is the very slight risk of loss should the borrower go out of business before the securities are returned, and due to market movements the value of collateral held has fallen and/or the value of the securities on loan has risen.

# ETFs used during both 'risk-on' and 'risk-off'...

**\$5.3B**

average daily trading volumes between 21 Feb – 27 March for FI UCITS ETFs, almost 200% vs 2019 weekly average.

**\$1.2B**

IEAC record trading day on 6 March (6.6x ADV)

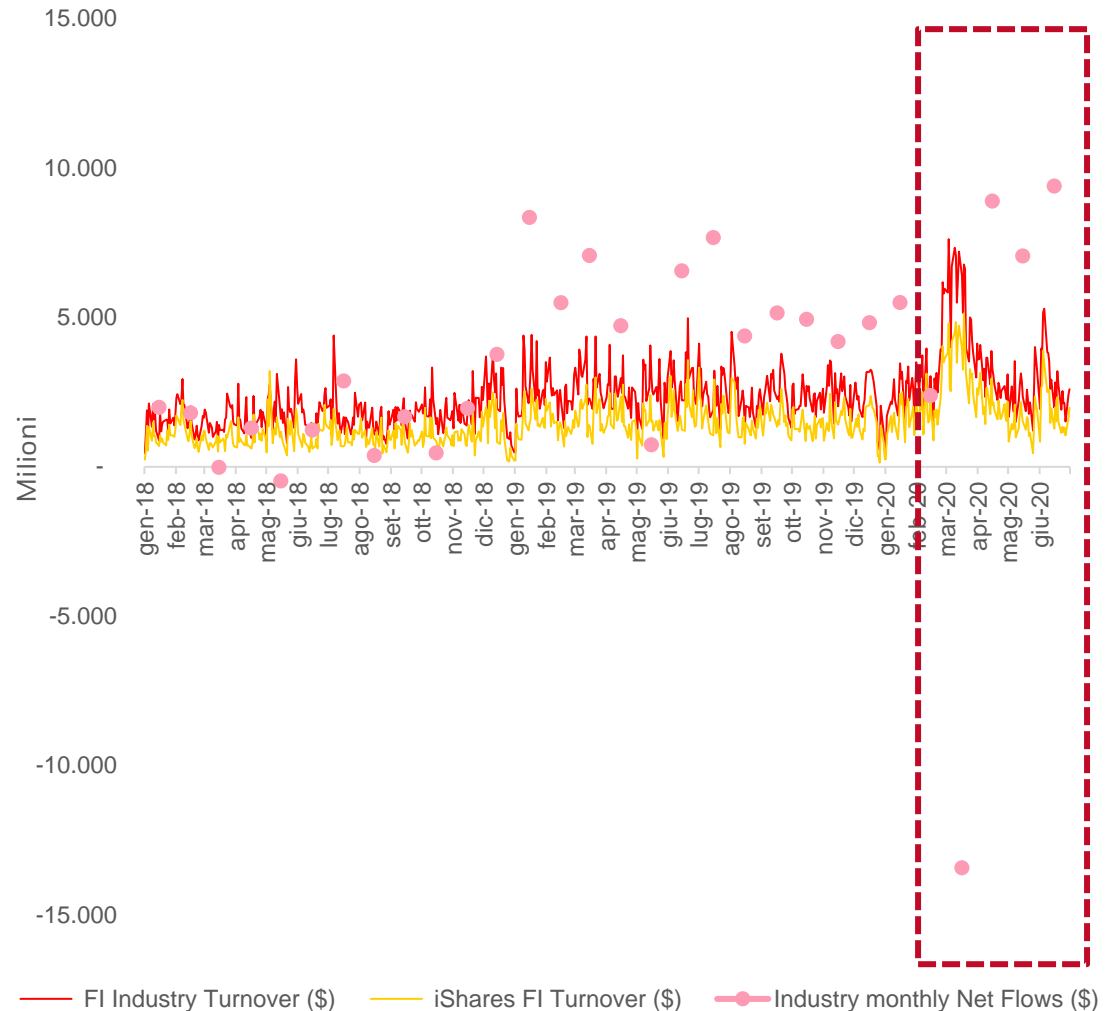
**-\$13.4B**

net outflows from FI UCITS ETFs during March, followed by inflows of

**\$8.9B and \$7.0B**

in April and May

## Secondary trading volumes & industry net flows



Source: BlackRock as at 30 June 2020. \$ refers to US\$.

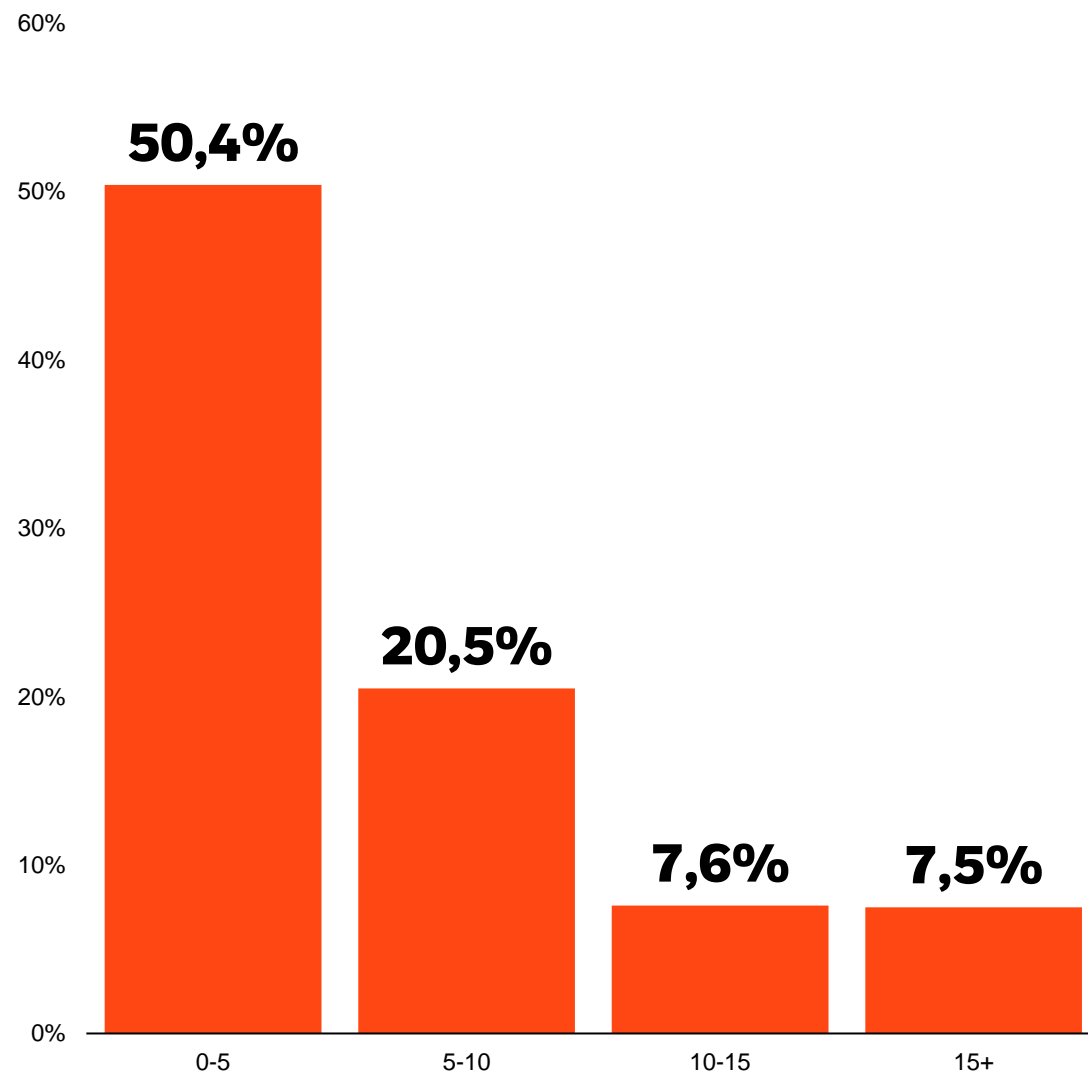
# Fixed income ETFs traded more frequently than underlying bonds

- On 12 March, shares of iShares \$ Corp Bond UCITS ETF (LQDE) changed hands more than 1,000 times on exchange and OTC, while its top five underlying holdings traded an average of only 37 times each.
- In March, more than half of LQDE's bonds traded between zero and five times per day, on average, while the ETF traded regularly more frequently than the bonds in the underlying portfolio.

Source: FINRA TRACE, BlackRock from 2 March 2020 to 20 March 2020. Includes only end investor buys and sells – not dealer-to-dealer trades.

LQDE offers liquidity when underlying cash bond market liquidity is difficult to source.

## Trading activity in LQDE universe in March 2020



# ...and offered price discovery

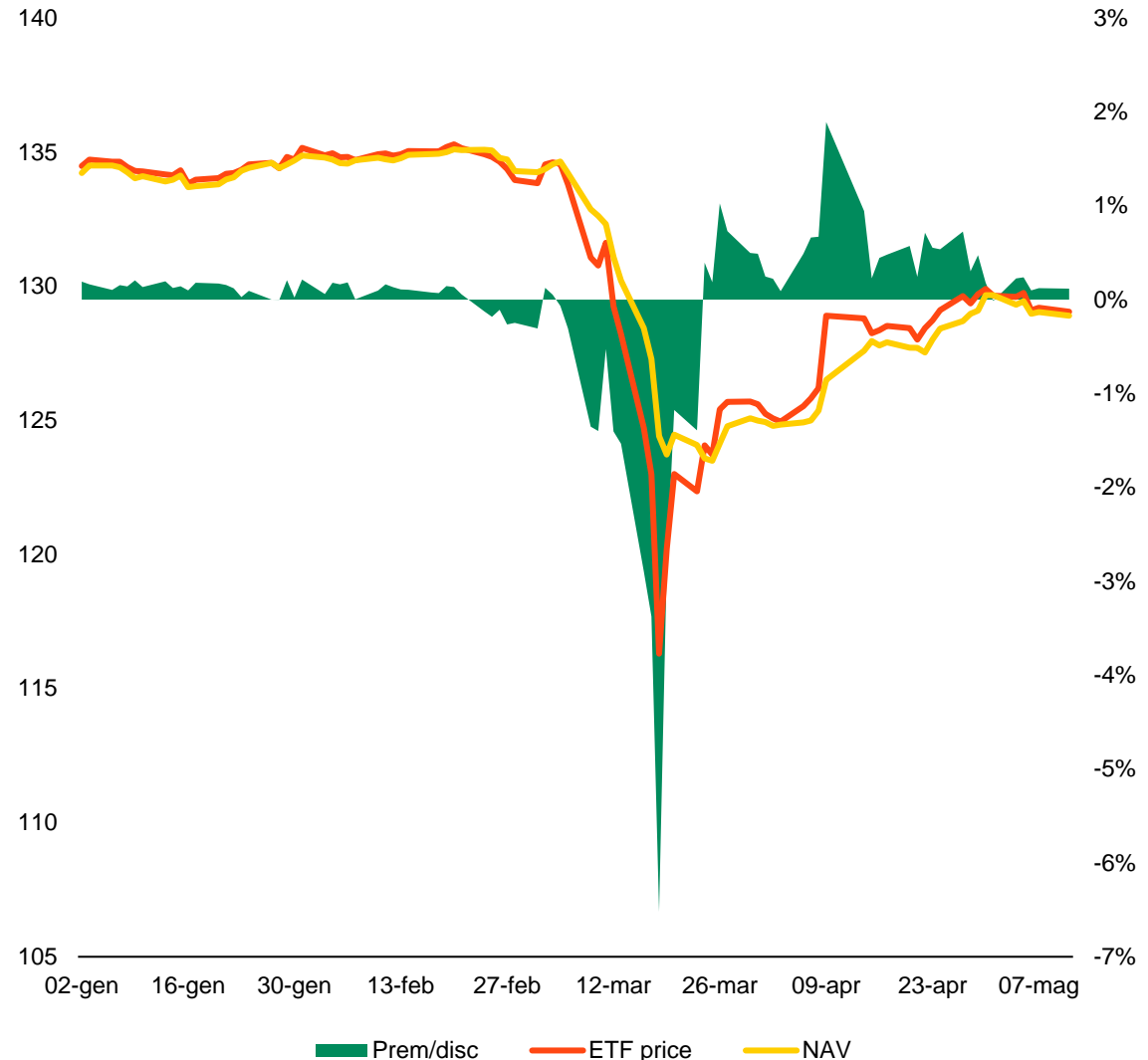
**IEAC offered real-time insight into where risk was exchanging hands in EUR corporates.**

- During early March, IEAC's price fell more rapidly than the fund's Net Asset Value (NAV) as index prices of individual bonds were slower to react to market moves. This was due to underlying bond markets being effectively closed, with low volumes of individual bonds exchanging hands.
- In contrast, the ETF traded much more frequently, providing a window in to where market participants were willing to exchange risk on a broad, diversified pool of bonds.
- As markets recovered after central banks globally stepped in to support bond markets, ETF prices recovered quickly and rose above the NAVs, which had yet to catch up to ETF prices.

Sources: Bloomberg, BlackRock, as of 11 May 2020.

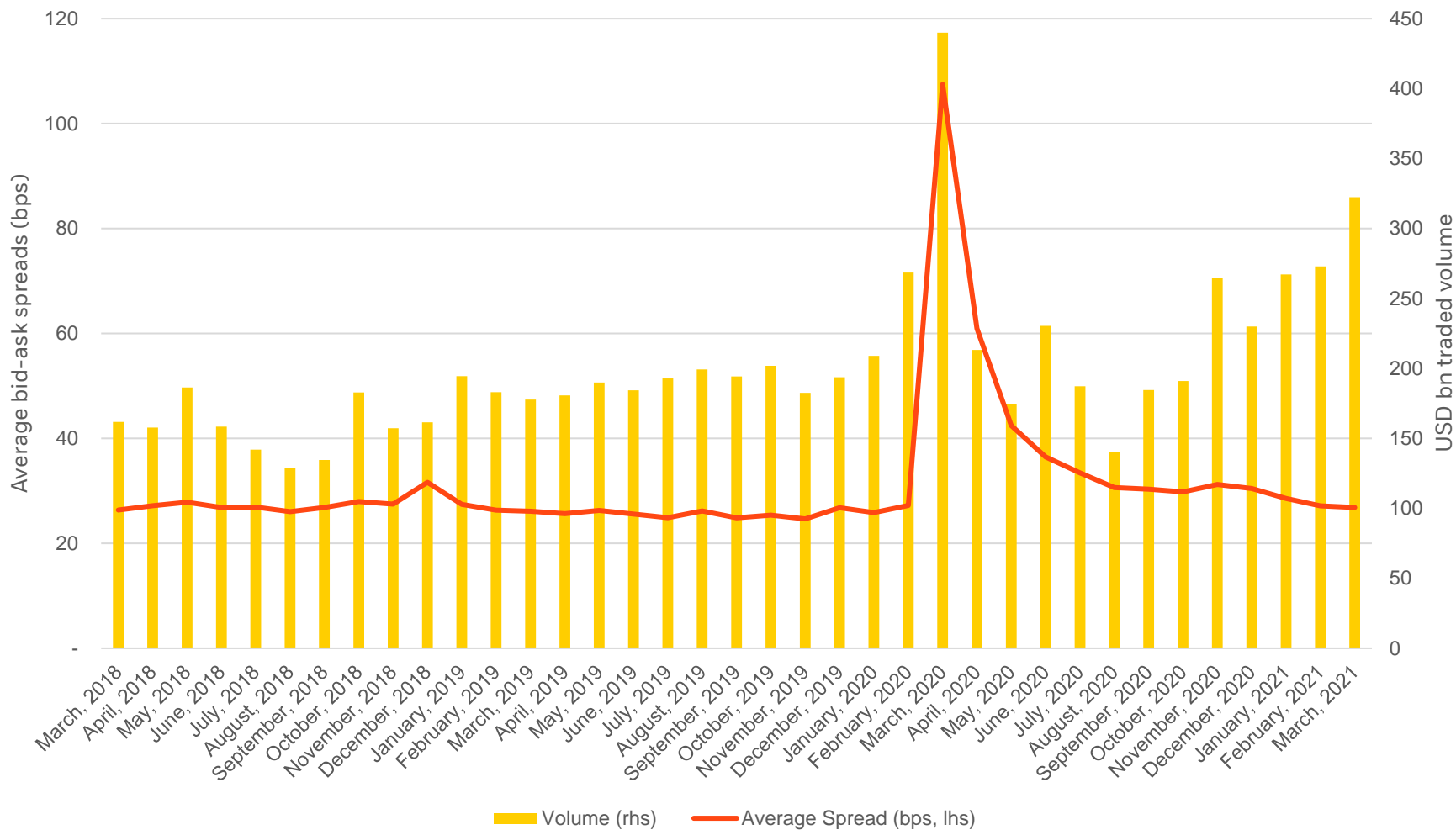
There can be no assurance that an active trading market for shares of an ETF will develop or be maintained.

## IEAC price vs. NAV





# Trading volumes in fixed income UCITS ETFs have doubled since March 2018



Source: BlackRock. Data per 31/03/2021. All trading volumes in USD. Data is based on iShares Fixed Income UCITS ETFs.

# ETFs performed as they were supposed to... even during volatile times

## € IG Corp – Case Study 1

**When:** March 2020

**Flow:** \$3.6B of gross primary flows

**Tracking:** tight at -20bp

### iShares Core € Corp Bond UCITS ETF (IEAC)

Fund AUM €14.9B

# 3,074 bonds in fund

Performance	March 2020 (as of 31/03/2020)	Q1 2020 (as of 31/03/2020)	1 year (as of 31/03/2021)	3 year (ann.) (as of 31/03/2021)	5 year (ann.) (as of 31/03/2021)
Total return	-6.93%	-6.29%	8.62%	2.27%	2.16%
Benchmark	-6.85%	-6.15%	8.76%	2.44%	2.31%
<b>Total return v. benchmark</b>	<b>-0.08%</b>	<b>-0.14%</b>	<b>-0.14%</b>	<b>-0.17%</b>	<b>-0.15%</b>
Current exp. ratio	0.20%	0.20%	0.20%	0.20%	0.20%

## \$EM Debt – Case Study 2

**When:** March 2020

**Flow:** \$2.3B of gross primary flows

**Tracking:** tight at -40bp

### iShares J.P. Morgan \$ EM Bond UCITS ETF (IEMB)

Fund AUM \$9.5B

# 514 bonds in fund

Performance	March 2020 (as of 31/03/2020)	Q1 2020 (as of 31/03/2020)	1 year (as of 31/03/2021)	3 year (ann.) (as of 31/03/2021)	5 year (ann.) (as of 31/03/2021)
Total return	-14.31%	-13.88%	15.81%	3.67%	4.56%
Benchmark	-14.15%	-13.69%	16.08%	4.02%	4.96%
<b>Total return v. benchmark</b>	<b>-0.15%</b>	<b>-0.19%</b>	<b>-0.27%</b>	<b>-0.35%</b>	<b>-0.40%</b>
Current exp. ratio	0.45%	0.45%	0.45%	0.45%	0.45%

**The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.** Returns are based on NAV, base currency of the ETF, and net of fee basis. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

Source: BlackRock, as of 31 March 2021.

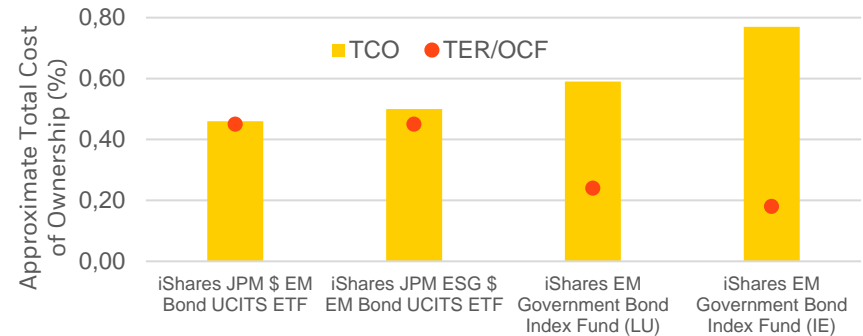
# ETF and Index Fund Wrapper Comparison

## Ex-Ante Total Cost of Ownership (TCO)

### Headlines

- The flagship iShares J.P. Morgan \$ EM Bond UCITS ETF (Ticker: IEMB) is the largest and most liquid \$EMD UCITS ETF
- Blackrock's Total Cost of Ownership framework gives investors more insight in the potential costs involved

### Total Cost of Ownership (Proxy 1 Year)



### How to look at total cost of ownership?

Fund	Name	Benchmark name	1 Launch Date	TER	2 AUM (\$m)	3 ADV (\$m)	4 Avg Spread	12m Tracking Diff.	5 12m pTCO
IEMB LN Equity	iShares J.P. Morgan \$ EM Bond UCITS ETF	J.P. Morgan EMBI Global Core	18/02/2008	0.45%	10,704	80	0.08%	-0.36%	0.44%

- 1 The iShares J.P. Morgan \$ EM Bond UCITS ETF has a long track record since 2008
- 2 Largest \$ EM UCITS ETF in the market...
- 3 ....resulting in a liquid secondary market, with \$80m of average daily traded volume (ADV)
- 4 Being able to trade at tight bid-ask spreads....

- 5 ... allows investors to cost efficiently allocate to fixed income markets

Source: Bloomberg and BlackRock, 28 February 2021. Figures for illustrative purposes only. Subject to change.

Trading costs for ETF shown as the 3m average screen spread, costs are indicative and will vary depending on trade size and prevailing market conditions.

# iShares fixed income UCITS ETF range

**From broad market exposures to precise pockets, iShares fixed income ETFs offer efficient building blocks needed to reach almost every part of the fixed income market**

ESG integration						
Government exposure		Broad market	Securitised	Corporate exposure		EM exposure
Government 36 ETFs	Inflation 5 ETFs	Aggregate 3 ETFs	Securitised 3 ETFs	Investment grade 27 ETFs	High yield 7 ETFs	Emerging markets 7 ETFs
Global	Global	Global	Jumbo Pfandbriefe	Global & single currency exposures	Global	Single currency (€, \$)
Regional exposures (€, £, \$, CHF, CNY)	Regional exposures (€, £, \$)	Euro	€ covered bonds	Short & ultrashort duration (€, \$, £)	Single currency (€, \$)	Local currency
Maturity buckets	Short duration \$ TIPS	US	US MBS	Financials / ex financials	Short duration	Government
Single country				Floating rate notes	Global fallen angels	Corporate
Climate bonds				Interest rate hedged (€, \$)		China
				Crossover (€ BBB-BB)		
Currency hedged (€, £, \$, SEK, NZD, MXN, CHF) and distributing / accumulating share classes						
iShares offers a broad range of 97 bond ETFs in Europe with US\$188bn. in AUM <sup>1</sup>						

Source: BlackRock, as of 31 March 2021. <sup>1</sup> Source: BlackRock, as of 31 March 2021. Note: European ETF offering only.

Not all above ETFs available in UCITS format. This information is for illustration purposes only. It should not be relied upon by the reader as investment advice or recommendation regarding the iShares funds.

# Flagship funds & options availability

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Source: BlackRock, as of 31 March 2021.



# ESG integration





# Sustainable profile improvement...with comparable returns



**Improved  
sustainable profile**



**Historically similar risk and  
return characteristics**



**Comparable costs to standard  
market cap exposures**

Avoid	Advance					
Eliminating exposures to certain sectors or activities	Aligning capital with certain behaviors, activities our outcomes					
Exclusionary screens	ESG Broad				ESG Thematic	Impact
Global Corp ESG Screened Index Fund	€ Corp ESG ETF	€ Corp 0-3 Year ESG ETF	€ Ultrashort ESG ETF	\$ EM ESG ETF	€ Govt Climate ETF	Global Green bonds Index Fund
€ Corp ESG Screened Index Fund	\$ Corp ESG ETF	\$ Corp 0-3 Year ESG ETF	\$ Ultrashort ESG ETF		Global Govt Climate ETF	€ Green bonds ETF
	€ High Yield ESG ETF	\$ High Yield ESG ETF	£ Ultrashort ESG ETF			

Source: BlackRock, as of March 2021.

# Sustainable profile improvement...with comparable returns



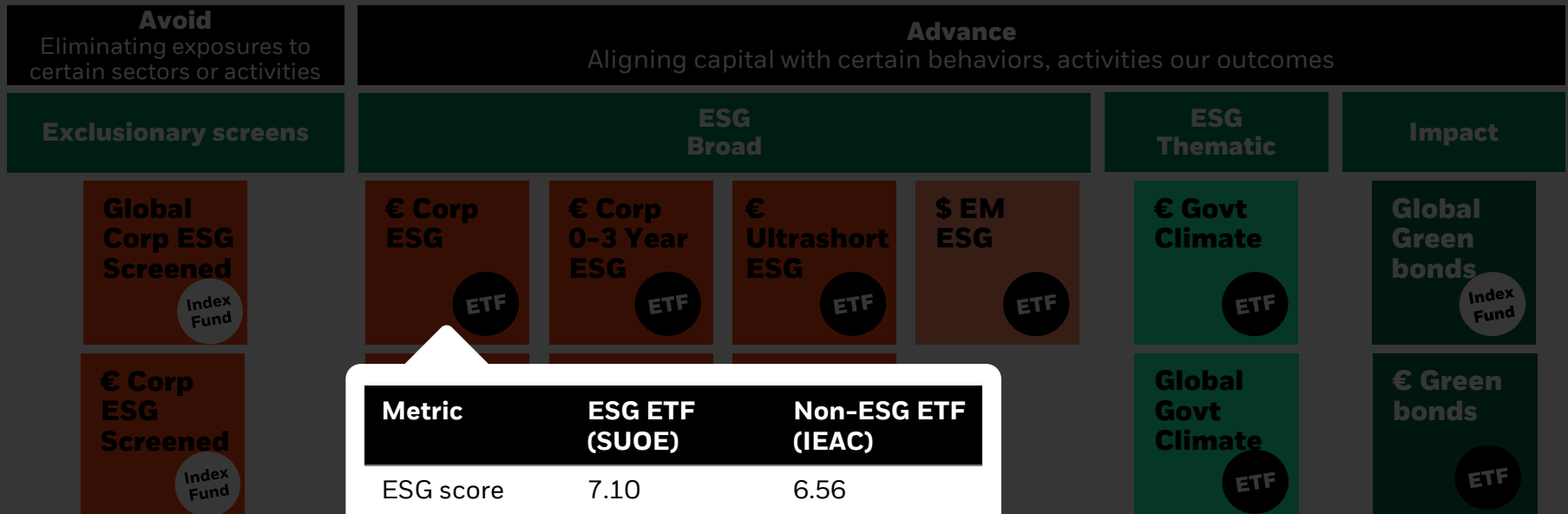
**Improved sustainable profile**



**Historically similar risk and return characteristics**



**Comparable costs to standard market cap exposures**



Metric	ESG ETF (SUOE)	Non-ESG ETF (IEAC)
ESG score	7.10	6.56
YTM	0.24%	0.28%
ED	5.24	5.33
No. of bonds	2,377	3,164

Source: BlackRock, as of March 2021.

Source: BlackRock, as of March 2021.

# Risks Warnings

**Capital at risk.** The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

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## Product Risks

### iShares \$ Corp Bond UCITS ETF USD (Dist)

Counterparty Risk, Liquidity Risk, Credit Bail in Risk

### iShares \$ High Yield Corp Bond UCITS ETF USD (Dist)

Counterparty Risk, Credit Risk, Liquidity Risk, Non-Investment Grade Risk

### iShares € High Yield Corp Bond UCITS ETF

Counterparty Risk, Liquidity Risk, Non-Investment Grade Risk, Credit Bail in Risk

### iShares Core € Corp Bond UCITS ETF EUR (Dist)

Counterparty Risk, Liquidity Risk, Credit Bail in Risk

### iShares J.P. Morgan \$ EM Bond UCITS ETF USD (Dist)

Counterparty Risk, Credit Risk, Currency Risk, Emerging Markets Risk, Liquidity Risk

### iShares J.P. Morgan EM Local Govt Bond UCITS ETF USD (Dist)

Counterparty Risk, Credit Risk, Currency Risk, Emerging Market Government Fixed Income Securities Risk, Emerging Markets Risk, Liquidity Risk

## Description of Product Risks

### Counterparty Risk

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Share Class to financial loss.

### Liquidity Risk

Lower liquidity means there are insufficient buyers or sellers to allow the Fund to sell or buy investments readily.

### Credit Bail in Risk

The issuer of a financial asset held within the Fund may not pay income or repay capital to the Fund when due. If a financial institution is unable to meet its financial obligations, its financial assets may be subject to a write down in value or converted (i.e. “bail-in”) by relevant authorities to rescue the institution.

### Credit Risk

The issuer of a financial asset held within the Fund may not pay income or repay capital to the Fund when due.

### Non-Investment Grade Risk

Non-investment grade fixed income securities are more sensitive to changes in interest rates and present greater ‘Credit Risk’ than higher rated fixed income securities.

### Currency Risk

The Fund invests in other currencies. Changes in exchange rates will therefore affect the value of the investment.

### Emerging Markets Risk

Emerging markets are generally more sensitive to economic and political conditions than developed markets. Other factors include greater ‘Liquidity Risk’, restrictions on investment or transfer of assets and failed/delayed delivery of securities or payments to the Fund.

### Emerging Market Government Fixed Income Securities Risk

Fixed income securities issued or guaranteed by government entities in emerging markets generally experience higher ‘Credit Risk’ than developed economies.

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