

Case Study:
Structured Product Solutions Incorporating REITs
 November 2012

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Why Are Structured Products Based On REITs Popular In Japan?

- By combining BlackRock's expertise in investing in REITs and our Japanese business partners' extensive distribution networks, innovative solutions based on investing in index based and actively managed products have been developed.
- These products have been based on ETFs or funds investing in REITs combined with covered call overlay strategies to enhance yield. Incorporation of a monthly dividend payout feature is key to success.

Rakuten Investment Management (via ETF)

The Rakuten Fund invests in a structured note based on our iShares US REIT ETF (i.e. IYR) along with a covered call overlay on IYR and a BRL/JPY currency swap. This allows the Fund to deliver income from three sources.

Launch Date : 31 August 2010
AUM : US\$ 713 million
Expected Yield : 16%
Distribution : monthly

Source: Rakuten, 19 November 2012

T&D Asset Management (via ETF)

The T&D Fund invests in a collateralized swap which links to the performance of a covered call strategy based on our iShares US REIT ETF (i.e. IYR). There are two share classes available – one achieves additional yield pick-up through writing a call option on USD/JPY, the other JPY hedged.

Launch Date : 31 August 2012
AUM : US\$ 913 million
Expected Yield : 18.8%
Distribution : monthly

Source: T&D, 31 October 2012

Nomura (via active portfolio)

The Nomura product is a sub-advised BlackRock global REIT fund with a covered call overlay as part of a larger Nomura flagship Fund of Funds.

Launch Date : 19 April 2012
AUM : US\$ 3.1 billion¹
Yield : 8%
Distribution : monthly

Source: Nomura, 31 October 2012

The above comparison is for illustration only and does not purport to compare all funds in the same investment universe nor does it compare all characteristics of the funds shown above. Reference to the name of the funds should not be construed as investment advice or investment recommendation of those funds.

Why Consider REITs?

- With interest rates in the developed world hovering near record lows and inflation remaining muted, investors continue to search for yield and invest for income.
- REITs are a total return investment, combining capital appreciation and current income through dividends. As such, REITs tend to have a distinct advantage in combating inflation.
- REITs have modest correlations to typical asset classes, broadening diversification within an investor's total portfolio and providing competitive long term returns compared with bonds and equities.
- The housing market is a bright spot in the US economy, having recovered to pre-2008 levels. Inflow momentum to REITs has increased following QE3.

Why iShares Dow Jones Real Estate Index Fund (IYR)?

- ETFs are a liquid, transparent and effective way to access real estate markets.
- IYR is one of the most liquid ETFs in the market, trading in excess of 10 million shares a day at the notional value over US\$ 650 million².
- We believe IYR is the only diversified US REIT ETF to invest in mortgage REITs. Mortgage REITs provide higher yield than other REIT sectors. IYR therefore offers additional diversification and is able to capitalise on prescriptive monetary policy³.

¹ BlackRock managed US\$ 1 billion in assets, as of 31 October 2012

² Bloomberg, November 2012

³ BlackRock, November 2012

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