

## The timelessness of index funds

BlackRock's motive for inventing the first index fund in 1971<sup>^</sup> is as pertinent today as it was when we started: providing investors transparent, straightforward access to the world's diverse asset markets in cost-effective ways. Whether markets are racing forward or subdued, index funds warrant a place in portfolios.

BlackRock created index funds because we always believed that the index fund versus active fund argument is misconceived. It has never been a case of having to choose between index and active investing.

Investors and their advisers choose how to invest. Thanks to our breadth of capabilities, we are enablers of investors' choice.

Index and active investing are complementary. For many years, index funds were deployed as stand-alone components in portfolios. More recently, they have been utilised as part of a 'core-satellite' strategy. This speaks to the timeless attributes of indexing.

### What is an index fund?

An index measures the performance of a market in aggregate or alternatively, specific market segments. Therefore, when investors buy an index fund, they are investing in a fund that aims to deliver the performance of the chosen index. The fund will aim to hold the index constituent securities at their index weights or a representative sample depending on factors such as the size and complexity of the index, thereby delivering performance in line with the index.

Indexation has grown rapidly since the first institutional index fund was pioneered by BlackRock in 1971. Since then, indexation has moved beyond its original role as a means of achieving investment results that keep pace with the market averages.

Today, it serves as a valuable tool in managing the risks associated with uncertain investment performance. For many, indexation is a crucial lower-cost, low maintenance approach to managing a proportion of, or indeed their entire investment portfolio. Today, BlackRock manages US\$1.32 trillion\* in index funds for clients worldwide.

### Index funds from BlackRock

Fund name	Benchmark	Inception date	Distribution frequency	Management costs (p.a.)	Buy-sell spread	APIR code
BlackRock Indexed Australian Equity Fund	S&P /ASX 300 Accumulation Index	31/10/1998	Quarterly	0.20%	0.12%/0.12%	BGL0034AU
BlackRock Indexed International Equity Fund	MSCI World ex-Australia Index (unhedged in Australian dollars and net dividends reinvested)	12/12/2001	Annually	0.20%	0.25%/0.25%	BGL0106AU
BlackRock Indexed Hedged International Equity Fund	MSCI World ex-Australia Index (hedged in Australian dollars and net dividends reinvested)	12/4/2001	Annually	0.20%	0.25%/0.25%	BGL0044AU
BlackRock Indexed Australian Listed Property Fund	S&P/ASX 300 A-REIT Accumulation Index	16/7/2001	Quarterly	0.20%	0.25%/0.25%	BGL0108AU
BlackRock Indexed Australian Bond Fund	UBS Composite Bond All Maturities Index	14/11/2001	Quarterly	0.20%	0.05%/0.08%	BGL0105AU
BlackRock Global Bond Index Fund	Barclays Capital Global Aggregate Index (hedged in Australian dollars and net dividends reinvested)	31/10/1997	Quarterly	0.20%	0.30%/0.30%	BGL0008AU

<sup>^</sup> Was known as BGI until 2009 merger with BlackRock.

\* Excludes iShares ETFs as at 31 August 2011.

## Common attributes of index funds are:

### ▶ **Diversification**

Index funds transcend the complications of stock selection. Rather than attempting to choose between individual securities, some of which will outperform and others which will underperform, index funds provide exposure to total market returns. The upshot is clean, uncomplicated market access.

### ▶ **Efficient asset allocation tools**

Index funds provide highly effective building blocks that can be used to execute asset allocation strategies.

### ▶ **Low cost**

The simplicity of index-based investing makes this a low cost investment approach when compared with actively managed funds.

### ▶ **Market exposure**

Index-tracking is designed to minimise the risk of returns deviating from market returns. This significantly reduces the chance of volatility associated with deviations from the relevant benchmark. But scale, resources and, indeed, skill applied to index investments can potentially make a marginal difference to the outcome and result in valuable extra returns for investors.

## Using index funds in portfolios

The simple and flexible nature of index funds means they can play a central role in an investment portfolio, either as a “stand alone” or “core/satellite” strategy:

- ▶ **Stand alone:** As part of a long-term “buy and hold” strategy, index funds offer investors diversification, market exposure at low cost and reduction of the overall portfolio risk.

- ▶ **Core & satellite:** The “core” forms the foundation of the strategy around which the more specialised satellite investments can be added. The core usually takes the form of a low risk, pooled investment vehicle that offers low cost, broadly diversified market exposure that aims to deliver returns in line with the market’s performance – this is often referred to as the beta return. The second part of the portfolio is made up of “satellites”, which are typically more focused investments that aim to outperform market returns. Satellites can include actively managed funds including thematic funds and hedge funds as well as investments such as direct property and individual securities.

## About BlackRock

BlackRock is a leader in investment management, risk management and advisory services for institutional and retail clients worldwide with assets under management of US\$3.345 trillion as at 30 September 2011. BlackRock offers products that span the risk spectrum to meet clients’ needs, including active, enhanced and index strategies across markets and asset classes. BlackRock also offers risk management, advisory and enterprise investment system services to a broad base of institutional investors through BlackRock Solutions®. Headquartered in New York City, as at 30 September 2011, the firm has approximately 10,200 employees in 27 countries and a major presence in key global markets, including North and South America, Europe, Asia, Australia, the Middle East and Africa.

For further information, please contact your BlackRock Account Manager, speak to our Adviser Services Centre on 1300 366 101 or visit [www.blackrock.com.au/advisers](http://www.blackrock.com.au/advisers)

Issued by BlackRock Asset Management Australia Limited ABN 33 001 804 566, AFS Licence 225398 (BlackRock Asset Management). BlackRock Asset Management is the responsible entity of the funds referred to in this document. The funds only accept investments from wholesale (including professional or sophisticated) investors only. Retail investors are not able to directly invest in these funds. Retail investors may gain exposure to the funds by investing in certain Master Trusts or Wrap accounts which include the fund in their investment options. Please note that persons investing in the funds through an investor directed portfolio service will need to complete the applicable forms for the relevant service. Interests in the funds are only offered through an Information Memorandum or Product Disclosure Statement (PDS) which can be obtained by contacting us or visiting our website. Potential investors should consider the Information Memorandum or PDS in deciding whether to acquire or to continue to hold, units in the funds. BlackRock Asset Management, its officers employees and agents believe that the information in this document is correct at the time of compilation, but no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors or omissions (including responsibility to any person by reason of negligence) is accepted by BlackRock Asset Management, its officers, employees or agents. This document contains general information only and does not take into account an individual’s circumstances and consideration should be given to talking to a financial or other professional adviser before making an investment decision. Investors should bear in mind that the fund’s target return objective is a guideline only and may be affected by unknown risks and uncertainties, and that actual returns may differ. No guarantee as to the capital value of investments in the fund nor future returns is made by BlackRock Asset Management or any company in the BlackRock group. Past performance is not a reliable indicator of future performance.