‘ALTERNATIVE’ WAYS TO GROW YOUR PORTFOLIO

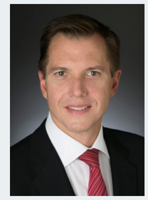
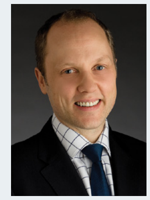
One of the tried-and-true mantras of investing is the importance of diversification. Filling your portfolio with a mix of different investments is one way to guard against risk on your way to reaching your financial goals. But not all diversification is created equal. Over the past 15 years, a balanced portfolio consisting of 60% stocks and 40% bonds was 98% correlated to stocks, a good thing when markets were on the way up, but not on the way down.

The portfolio managers of BlackRock’s Multi-Manager Alternative Strategies Fund believe one way to achieve broader diversification is through alternative investing, particularly with the advent of comprehensive strategies that combine numerous alternatives in a single portfolio.

- Because alternatives tend to behave differently than traditional stocks and bonds, adding them to your portfolio has the potential to improve diversification, lower volatility and limit downside risk.
- While diversification does not ensure profits, a multi-strategy approach provides access to a host of different investment opportunities stemming from inefficiencies in capital markets.
- Choosing the right manager is more important than choosing the right strategy. Differentiate between managers profiting from *luck* versus those profiting from *skill*.

What exactly is “alternative” investing?

Alternatives include a diverse range of assets and strategies, a far more robust platform to choose from than simply stocks, bonds and cash. It’s certainly not a one-size-fits-all investment strategy, and while alternatives may involve risk and can experience volatility, they’re a great way to help you build a more complete portfolio. Alternative assets, commodities for instance, inherently behave differently whereas alternative strategies typically look for market inefficiencies for their source of returns. This means they are less dependent on the direction the broader market is moving and may offer more consistent returns, which has the potential to lower your overall portfolio volatility. For instance, in the past 15 years, the stock market had 32 monthly drawdowns greater than 3% compared to only three for a diversified alternative strategies portfolio.

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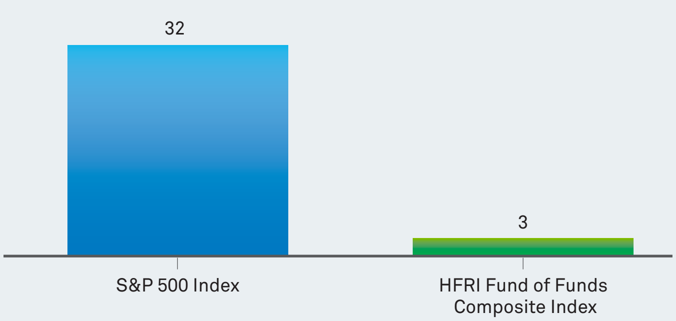
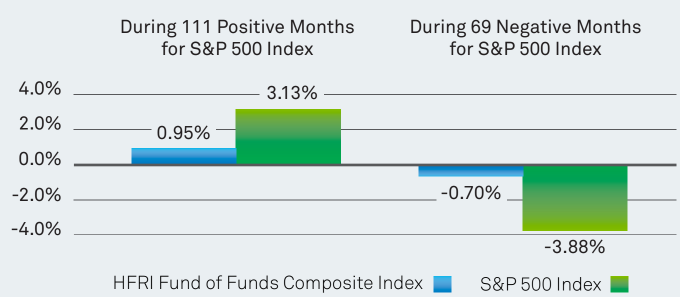
ALTERNATIVES PROVIDED CONSISTENT RETURNS AND DOWNSIDE PROTECTION (2000-2014)

Number of Monthly Drawdowns Greater than 3%



Source: HFR; Bloomberg.

Downside Risk Comparison: Average Monthly Return



Source: HFR; Bloomberg. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

What are the advantages of a multi-strategy approach?

A single-strategy investment is going to provide you with access to one sub-set of the market but a multi-strategy fund will offer you a well-diversified portfolio driven by different strategy buckets. Just as you would build a core stock or bond portfolio, this helps establish that core base in alternatives that you can then complement with more focused strategies.

From a top-down perspective, our portfolio management team will allocate capital based on opportunities we see that are created by supply and demand imbalances and inefficiencies in capital markets. Since no single strategy outperforms all the time, a multi-strategy approach can also potentially perform better throughout different market cycles.

What is your current market outlook and how does this relate to specific strategies?

We have views on a lot of different areas of the market, but we also realize we don't have a crystal ball. That's why we want to build diversified, well-balanced portfolios. But generally speaking, looking at where interest rates are right now and where equity valuations are, one might be better served to look to invest via a more hedged approach—reducing exposure to volatility and reducing sensitivity to equity markets and credit spreads. There are also some pretty significant geopolitical issues globally and that is something we take into consideration when forming our macro views.

When we look at various alternative investment strategies, we look to drill down to identify tailwinds and headwinds. For instance, event-driven managers are looking for corporate actions, where a company is looking to effectuate some kind of change to enhance shareholder value, perhaps through a merger or acquisition. And what supports that? Among other things, CEO confidence and cash-rich balance sheets, and those situations exist today. In the equity markets, trending growth and lots of liquidity provide favorable conditions for long/short equity managers. Conversely, persistent geopolitical or systemic risks—for instance, the end of the Federal Reserve bond purchase program and the widespread impact from oil price volatility—means some level of protection is warranted in the form of global macro/managed futures strategies.

KEEPING AN EYE ON THE MACRO VIEW

Top Down Outlook

Favorable conditions for event-driven strategies
- Cash rich corporate balance sheets
- Consolidation pressures in select sectors
- CEOs encouraged to add value through corporate actions

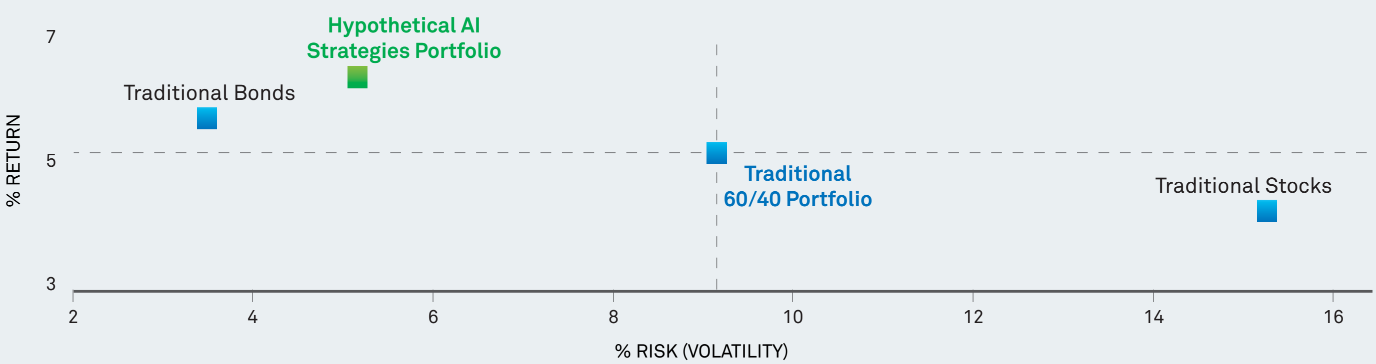
Environment conducive to fundamental stock pickers
- Volatility providing ample entry/exit trading opportunities
- Growing dispersion between fundamentally strong and weak companies

Opportunities persist in some segments of the credit markets
- Widening spreads between investment grade and non-investment grade corporate credit
- Resurgent securitization market (e.g. student loans, RMBS)

Given broader macroeconomic uncertainty, some level of protection is warranted
- Widespread market impact from collapse in oil prices
- Continued deficit and bank liquidity issues in Europe
- Sharp shifts in government debt rates and currencies

ALTERNATIVES SEEK TO INCREASE RETURN POTENTIAL AND HELP LOWER PORTFOLIO VOLATILITY

Hypothetical return/risk of a 60/40 portfolio compared to a diversified portfolio of alternative strategies (2000-2014)



Source: BlackRock. Past performance is no guarantee of future results. Assets are represented by: Traditional Stocks, S&P 500 Index; Traditional Bonds, Barclays US Aggregate Bond Index; Traditional 60/40 portfolio, 60% S&P 500 and 40% Barclays US Aggregate Bond Index; Hypothetical AI Strategies Portfolio, 20% Long/Short Credit, 20% Relative Value, 20% Long/Short Equity, 20% Event Driven, 20% to Global Macro / Managed Futures (10% each), rebalanced monthly. For illustrative purposes only. It is not possible to invest directly in an index. Diversification strategies do not ensure profits in declining markets.

How do you vet potential managers?

Every hedge fund manager that we meet claims to be "the best" at what they do, but we spend hundreds of hours—before and after investing—conducting extremely thorough due diligence to confirm those claims. Some managers are lucky and make the right trade at the right time, but it's one and done. Others are skillful investors who can make money over the long-term in different types of market environments. We want thought leaders who consistently initiate successful trades in compelling situations, not the ones who simply follow the herd. Because BlackRock Solutions® portfolio analytics allows us to model past positions, and do forward-looking scenario analysis, we can question a manager's rationale down to individual trades. And if we come across esoteric scenarios and need more specific, expert insight, we have direct access to more than 1,800 BlackRock investment professionals.

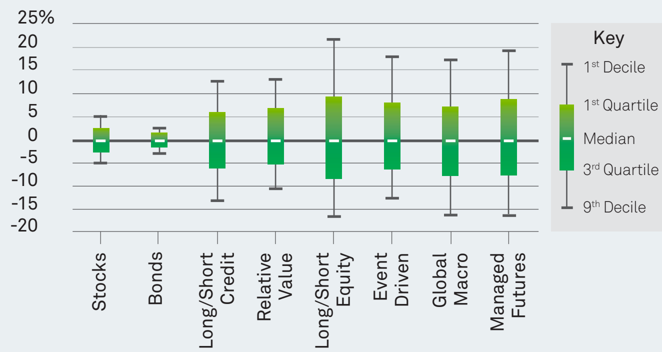
And while performance is important there is much more to the selection process than that. We vet risk management techniques, idea generation, portfolio construction, operations and infrastructure. Most hedge fund failures that you read about aren't driven by taking on excessive risk, but by not having the appropriate infrastructure and operating model in place. In fact, we've been a day-one investor with many of the managers on our platform. Helping them build their businesses from the ground up gives us improved visibility and influence over both their investment capabilities and operating structure. For every 100 hedge fund managers that show up on our radar, we probably invest in two, so it's a very selective process.

There are a number of multi-manager alternative mutual funds in the marketplace today. What differentiates BlackRock?

As part of the world's largest asset manager, we often get unique insights into the capital markets. Our investment colleagues around the world have expertise across all markets and we use this thought leadership to inform our top-down views. We are also able to leverage the risk infrastructure the firm has in place; few other asset managers can replicate what we have. This allows us to better understand the risks in the portfolio, which enables us to better meet the objectives that we've set.

PERFORMANCE DISPERSION IS SIGNIFICANT

Spread between average calendar year returns of top and bottom decile funds (2005–2014)

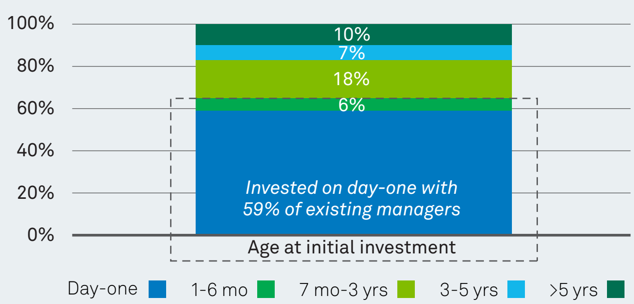


Source: Morningstar, Lipper TASS database. Past performance is no guarantee of future results. Stocks represented by Morningstar US Large Cap Core Funds. Bonds represented by Morningstar US Core Bond Funds. Alternative categories represented by the following TASS fund classifications: Fixed Income Arbitrage (representing Long/Short Credit); Convertible Arbitrage (representing Relative Value); Long/Short Equity; Event Driven; Global Macro; Managed Futures. For illustrative purposes only.

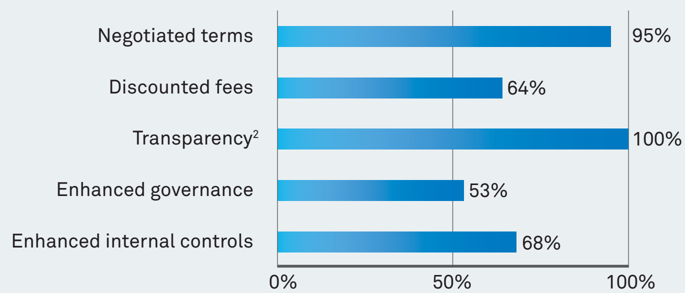
We've also directly evaluated more than 10,000 hedge funds in our 20-year history and have captured historical data for 10,000 more, so we know what the genetics of a good hedge fund looks like. Why is that so important? To start, public information on hedge funds is sparse, with the further complication that there are 15 times as many funds to choose from today as there were 25 years ago. And because along the way we forge so many strong, early relationships, managers are often willing to create custom strategies; often we're the only ones that they run these strategies for.

BROAD NETWORK ENABLES POTENTIAL FOR EARLY ACCESS TO UNIQUE OPPORTUNITIES

A History of Early Investment...*



...Resulting In Favorable Terms and Fees†



As of 12/31/14 and subject to change; reflects aggregate statistics for the overall BlackRock Alternative Advisors (BAA) platform. * BAA invests with over 125 hedge fund programs. Investment manager organizations may manage more than one investment program. † In aggregate across all approved funds on its platform, BAA receives 100% risk transparency and 80% position-level transparency by AUM. Position-level transparency may vary over time depending upon the number of managers on the platform and total investment with each manager. Because of the underlying structure of the fund, the portfolio management team has 100% position-level transparency for the Multi-Manager Alternative Strategies Fund.

How should investors consider incorporating a multi-strategy, multi-manager fund into their portfolios?

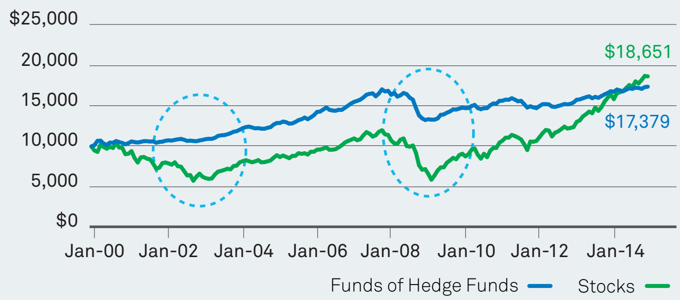
We look at this as a long-term investment, a good diversifier and a way to help reduce risk. We mentioned alternative strategies have historically been less volatile, and there is also an advantage in that a multi-strategy portfolio may perform better across market cycles.

This means a diversified alternative fund may be able to contribute toward more consistent returns for investors, and also limit drawdowns, which can help to protect portfolios in declining equity markets.

At this point in the cycle there are questions about when volatility will start to rise and how much return is left on the table. When the Fed starts to raise rates we think that's going to create some pressure on fixed income portfolios. Most yields are at all-time lows and if you want to retire someday—and we're all living longer—you're going to need more protection and more potential for growth in your portfolio.

CONSISTENCY OF RETURNS HELPS PROTECT ON THE DOWNSIDE

Hypothetical growth of $10,000 (2000-2014)



Source: BlackRock. **Past performance is no guarantee of future results.** Fund of Hedge Funds is represented by the HFRI Fund of Funds Composite Index. Stocks is represented by the S&P 500 Index. For illustrative purposes only. It is not possible to invest directly in an index.

Want to know more?

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Data represents past performance and does not guarantee future results.

Investment involves risks. Stock and bond values fluctuate in price so the value of your investment can go down depending on market conditions. The two main risks related to fixed income investing are interest-rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. Investments in non-investment-grade debt securities (high yield or "junk" bonds) may be subject to greater market fluctuations and risk of default or loss of income and principal than securities in higher rating categories. International investing involves additional risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments in emerging/developing markets or smaller capital markets. Incorporating alternative investments into a portfolio may involve substantial risk and presents the opportunity for significant losses including the loss of your total investment. Also, some alternative investments have experienced periods of extreme volatility and in general, are not suitable for all investors.

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