



**John Erdos**  
Vice President

# CHOOSING THE RIGHT ETF

Getting started with iShares

**iShares**<sup>®</sup>  
by BlackRock

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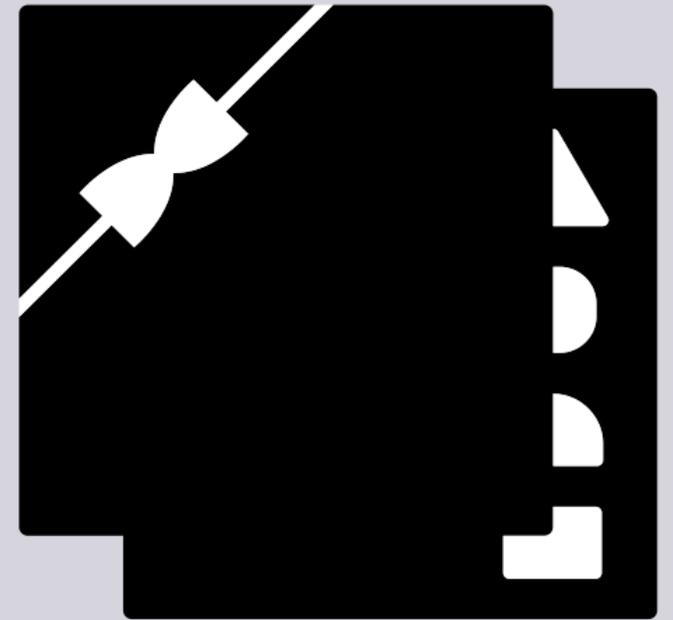
What is an ETF &  
why choose them

How to choose the  
right ETF

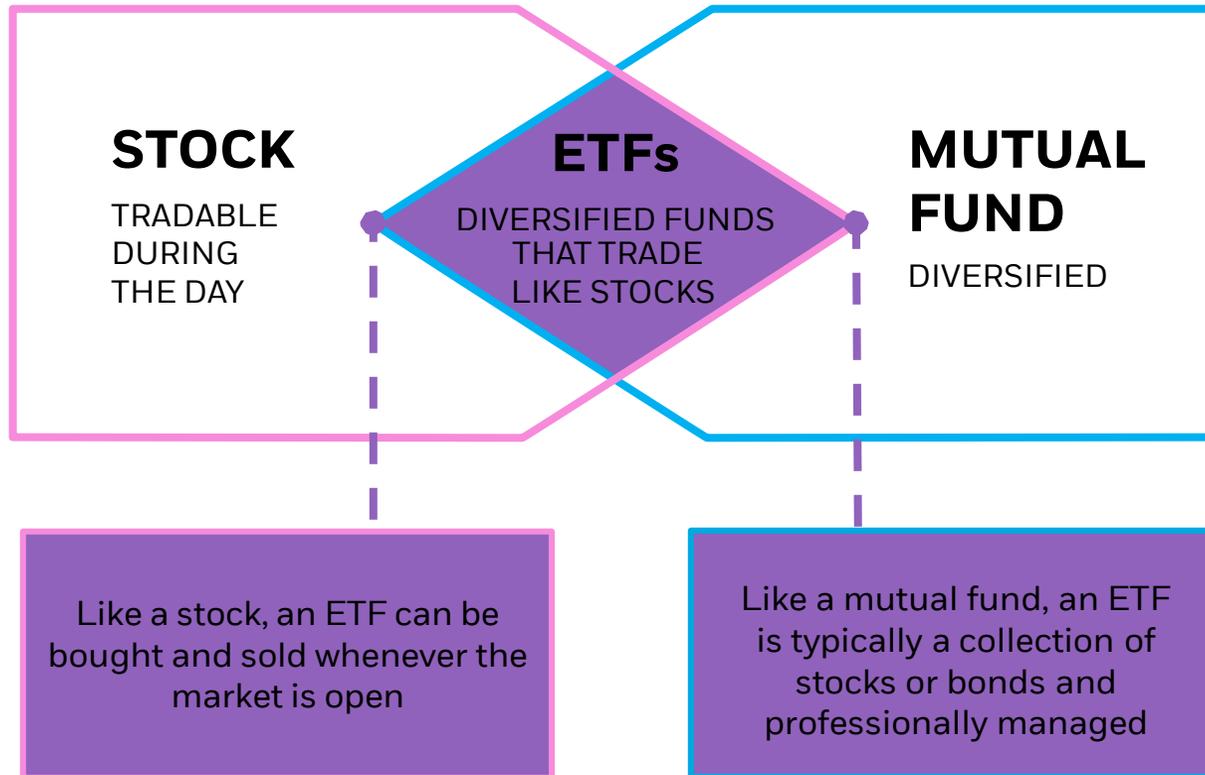
Get started  
with iShares

# OUR AGENDA TODAY

# WHAT IS AN ETF & WHY CHOOSE THEM



# Exchange-traded funds (ETFs)



# WHAT ARE ETFs?

Transactions in shares of ETFs will result in brokerage commissions and will generate tax consequences. All regulated investment companies are obliged to distribute portfolio gains to shareholders. For more information on the differences between traditional mutual funds and ETFs, see Appendix.

# Why ETFs?

## COMPETITIVE PERFORMANCE



Over the last 5 years iShares market cap S&P style box ETFs outperformed 80% of peers across all nine style boxes<sup>1</sup>

## LOW COST



iShares ETFs cost 1/3 as much as the typical mutual fund<sup>2</sup>

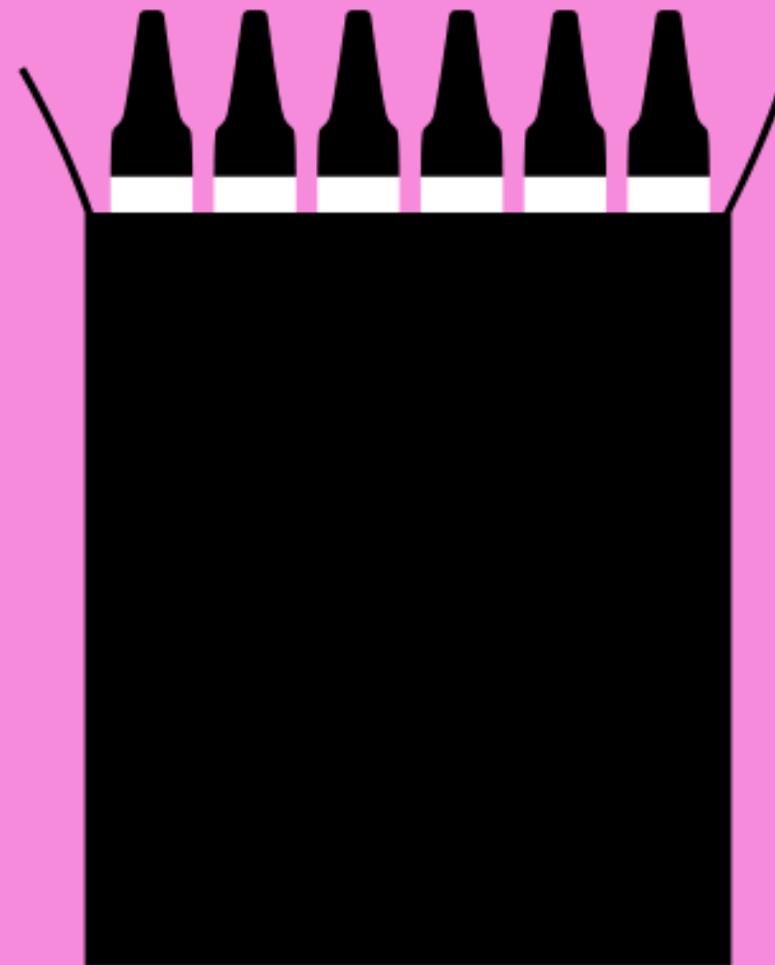
## TAX EFFICIENT



6% of iShares ETFs on average paid capital gains distributions over the last 5 years vs. 58% of mutual funds<sup>3</sup>

<sup>1</sup> Morningstar, as of 3/31/2019. Comparison universe is ETFs and mutual funds in the Morningstar category and uses total return. Overall figure is a weighted average of the percentage of funds that the iShares ETF outperformed in each style box, weighted based on the number of funds in the Morningstar category. The funds outperformed 59.7%, 75.9% and 75.6% of peers on a 1, 5 and 10 year basis, respectively. Performance may be different for other time periods. iShares market cap S&P style box ETFs are IVV, IJH, IJR, IWW, IVE, IJK, IJJ, IJT, and IJS. Past performance is no guarantee of future results. <sup>2</sup> Source Morningstar, as of 12/31/18. Comparison is between the average Prospectus Net Expense Ratio for the iShares ETFs (0.34%) and active open-end mutual funds (0.96%). <sup>3</sup> Source: Morningstar, as of 3/31/19. Average number of mutual funds that paid a capital gain distribution each year over 5 years. Universe includes all U.S. open ended mutual funds, oldest share class used. Universe includes all funds inception before 10/31 in each year and excludes funds that closed before 10/31 in each year. Past distributions are not indicative of future distributions.

# HOW TO CHOOSE THE RIGHT ETF



# A framework for evaluating ETFs



## **MANAGER**

How well do you know your manager / provider?



## **EXPOSURE**

What's inside your fund?



## **STRUCTURE**

How does structure affect performance?



## **COSTS**

How much are you paying in total?



# MANAGER

How well do you know your manager / provider?

## Critical questions

- How experienced is the firm in developing, managing and supporting ETFs?
- What are the firm's total assets under management and total ETF Assets?
- How does the firm manage risk with market participants and index providers?

## Example: choosing an ETF partner

**iShares**<sup>®</sup>  
by BlackRock

Trusted ETF leader,  
\$1.5 trillion in  
assets under  
management<sup>1</sup>

20+ years of  
ETF experience

Powered by  
BlackRock, trusted  
to manage more  
money than any  
other firm in the  
world<sup>2</sup>

<sup>1</sup> Blackrock, as of 3/31/19. Based on 830 ETFs and \$1.75 trillion in assets under management globally. <sup>2</sup> Blackrock, as of 3/31/19. Based on \$6.51 trillion in assets under management.



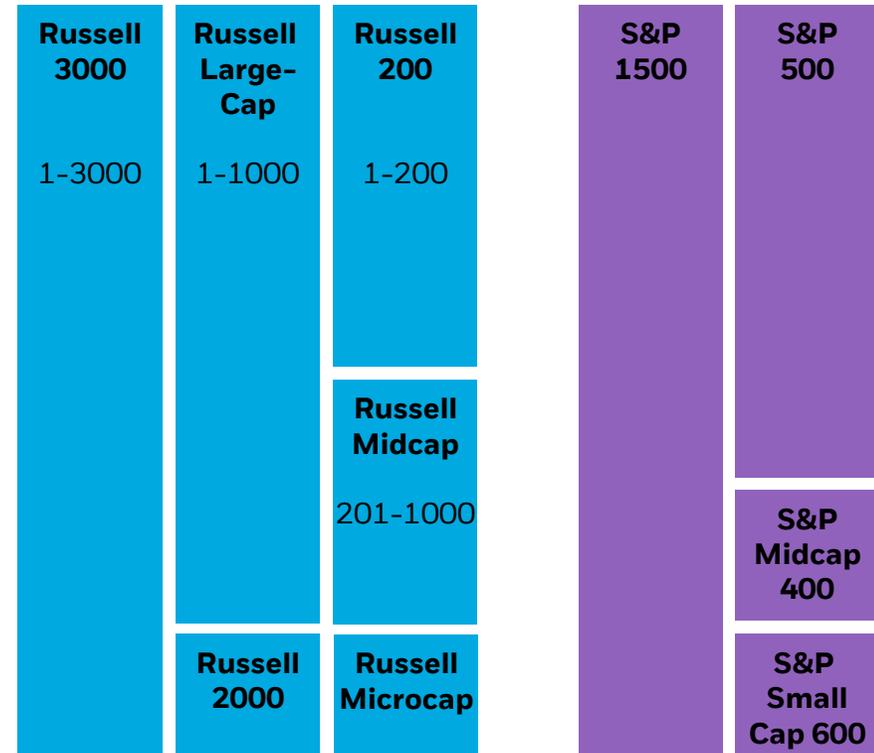
# EXPOSURE What's inside your fund?

## What's inside your fund?

### Critical questions

- How widely accepted is the index?
- What is the index methodology – how does it select components, rebalance, etc.?
- What is the ETF's method for tracking the index and why was this method chosen?
- How closely has the ETF tracked its benchmark?

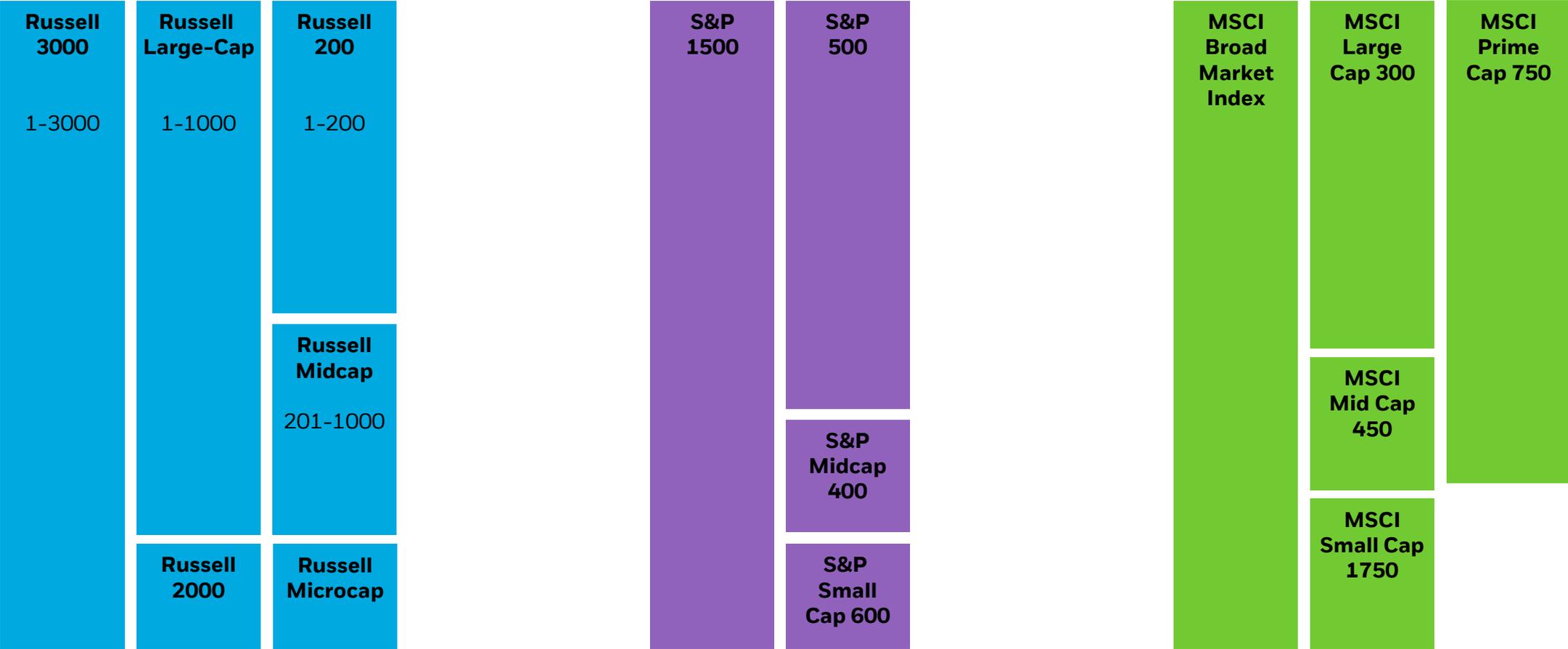
### Example: Russell vs. S&P exposures



For illustrative purposes only – market cap spectrum not to scale.

# Managing index exposure

## Putting indexes together

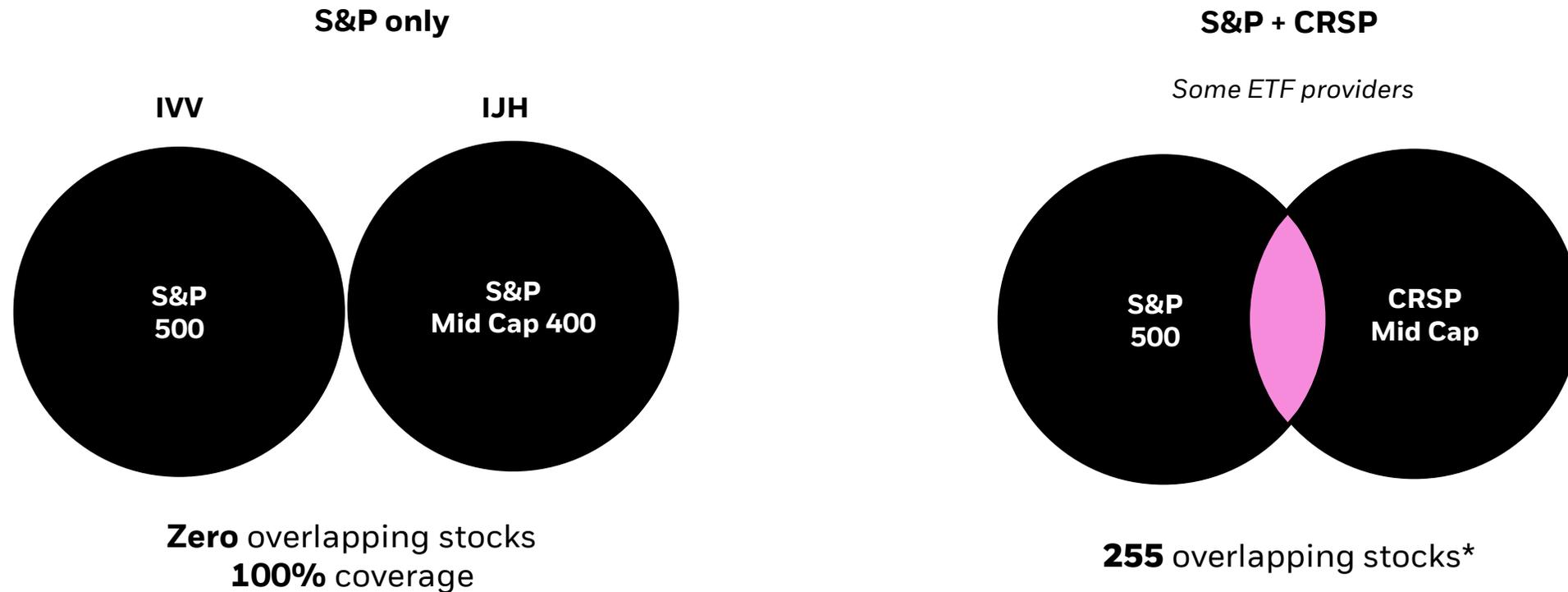


For illustrative purposes only – market cap spectrum not to scale.

# iShares low cost, full market coverage

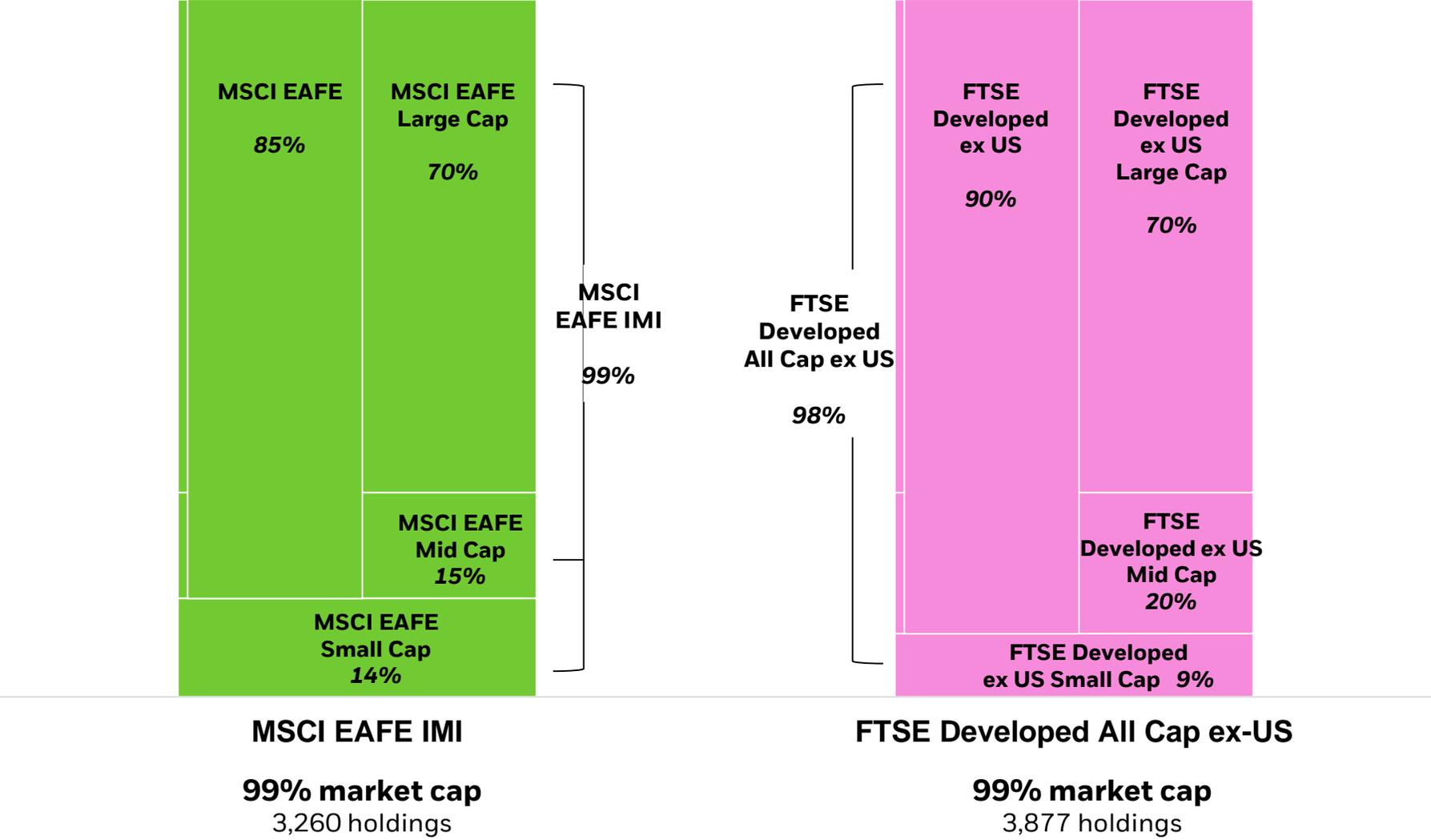
- Overlapping exposures can disrupt your asset allocation

## If you start with the S&P 500, stick with the S&P



\*Source: Bloomberg as of 12/31/2018. Subject to change. Indexes are unmanaged and one cannot invest directly in an index.

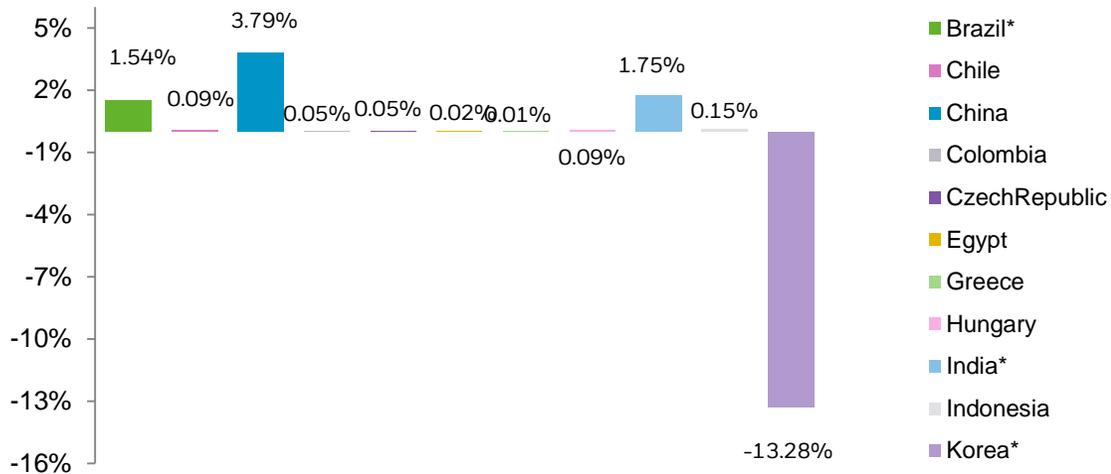
# International Developed Market Cap Coverage and Size Breakdown



For illustrative purposes only. Not to be construed as a recommendation to purchase or sell any security. Source: MSCI and FTSE Russell as of 2/28/2019. Holdings are subject to change. Market capitalization will vary by index provider.

# Due Diligence Case Study – Two Emerging Markets Indexes Can Vary

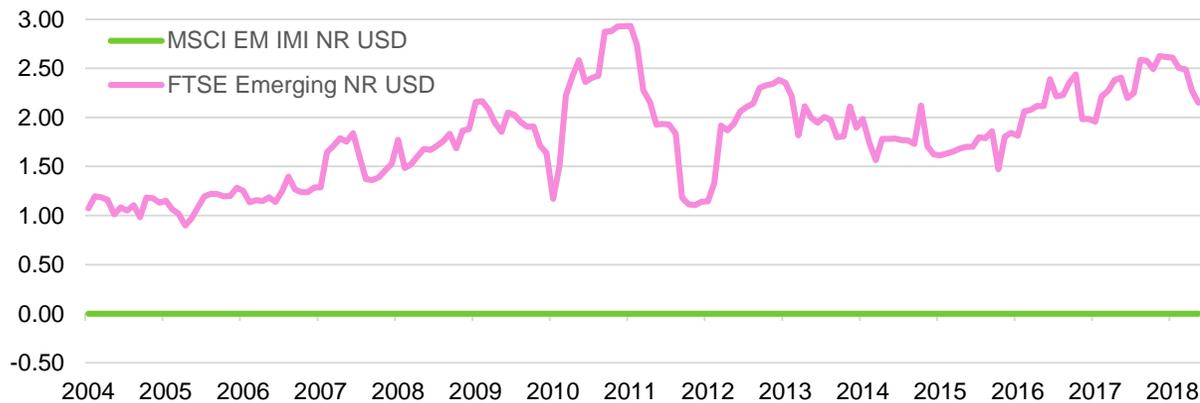
Relative country exposure difference in % (MSCI EM IMI Index – FTSE EM Index)



\*denotes traditionally non-in-kindable countries

## Rolling 12 Mo Tracking Error

Excess Annualized St Dev (%)

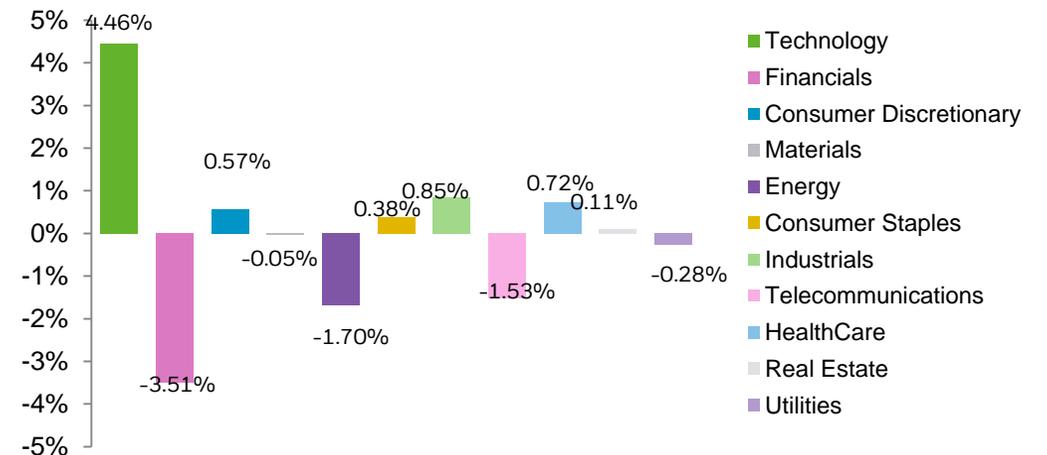


Source: MSCI, FTSE, Morningstar as of 4/30/2019

## Notables Differences:

- ▶ MSCI Index had a 13.3% to South Korea where FTSE EM Index has no exposure to South Korea
- ▶ MSCI EM Index has a larger weight to Technology and Consumer Discretionary
- ▶ Country and Sector differences can impact returns

Relative sector exposure difference in % (MSCI EM IMI Index – FTSE EM Index)





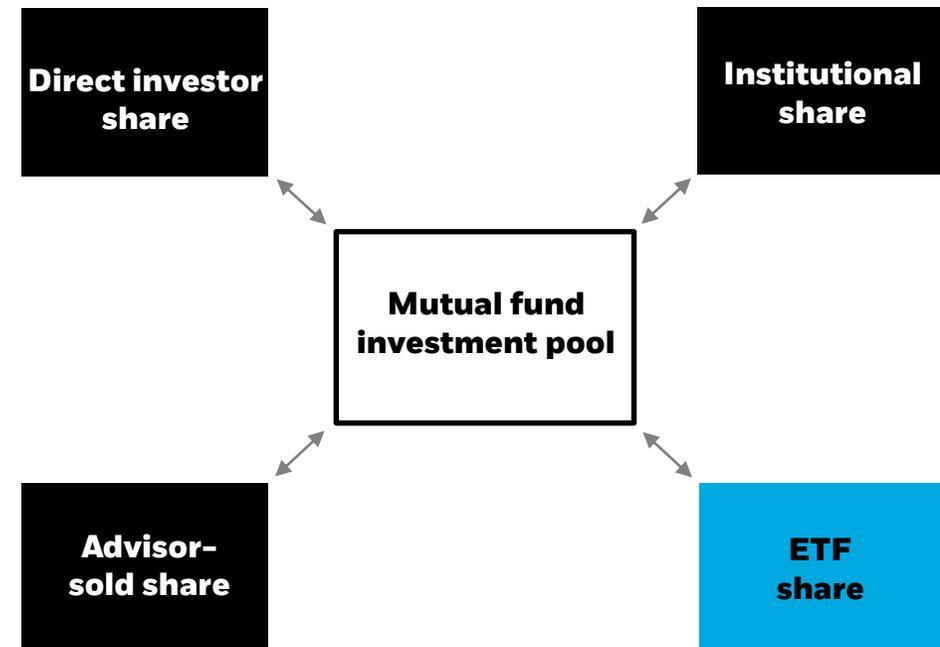
# STRUCTURE

How does structure affect performance?

## Critical questions

- Is the ETF an independent entity, or is it a share class of a traditional mutual fund?
- How does the creation/redemption process impact tracking, spreads, internal transaction costs?
- Does the ETF structure allow for dividend reinvestments as they are paid?
- What are the tax implications of the ETF structure? Have there been instances when capital gains were paid due to its structure?

## Example: ETF is a mutual fund share class



*For this type of ETF, actions of other mutual fund shareholders may create capital gains distributions for ETF shareholders.*



# COSTS

How much are you paying in total?

## Critical questions

- What is the expense ratio, trading cost, and average spread?
- How do the spread and volume factor into overall cost on a trade and per annum basis?
- How are internal transaction costs (including rebalancing costs) minimized?
- How much in capital gains distributions has the fund paid in the past?

## Example: consider the total cost of ownership

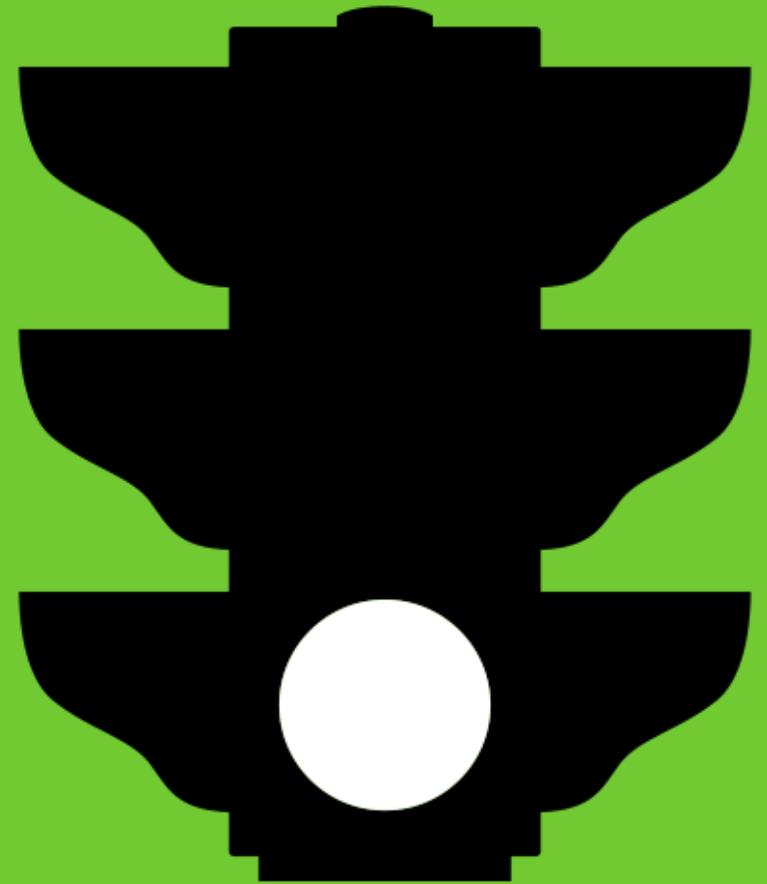
### EXPLICIT COSTS

Expense ratio  
Brokerage  
commission

### IMPLICIT COSTS

Trading costs  
+ Performance vs.  
benchmark (tracking  
difference)  
Taxes on distributions

# GET STARTED WITH iSHARES ETFS



# IN SUMMARY

## WHY ETFS

**COMPETITIVE  
PERFORMANCE**



**LOW COST**



**TAX EFFICIENT**



## GET STARTED



**MANAGER**



**EXPOSURE**



**STRUCTURE**



**COSTS**

**iShares**<sup>®</sup>  
by BlackRock

**Purchase all 329 commission-free\*  
iShares ETFs at Fidelity**

\* BlackRock is not affiliated with Fidelity or any of their affiliates.

Free commission offer applies to online purchases of [select iShares ETFs](#) in a Fidelity account. The sale of ETFs is subject to an activity assessment fee (from \$0.01 to \$0.03 per \$1,000 of principal). Other conditions and fees may apply.

# APPENDIX

# ETFs and traditional mutual funds: know the differences

Criteria	Mutual funds	ETFs
Management	Active	Passive
Performance goal	Outperform a benchmark and/or deliver an outcome	Track a benchmark
Buying / selling shares	Once per day via fund company	Intraday on exchanges
Price to buy / sell	End-of-day NAV, less fees	Current market price, which may differ from NAV
Fees	Expense ratio + any sales loads / redemption fees	Expense ratio + transaction / brokerage costs
Tax impact <sup>1</sup> of buyers / sellers	Shareholders may be impacted by all other shareholders' actions	Shareholders only impacted by their own action
Holdings disclosure	Typically quarterly	Daily
Benefits	<ul style="list-style-type: none"> <li>☒ Opportunity to outperform the index</li> <li>☒ Potential to limiting the downside</li> <li>☒ Buy/sell decisions based on research</li> </ul>	<ul style="list-style-type: none"> <li>☒ Exposure to market index</li> <li>☒ Generally lower fees</li> <li>☒ Typically more tax-efficient</li> </ul>
Trade-offs	<ul style="list-style-type: none"> <li>☒ Potential to underperform index</li> <li>☒ Generally higher fees</li> <li>☒ Typically less tax-efficient</li> </ul>	<ul style="list-style-type: none"> <li>☒ Does not seek to outperform index</li> <li>☒ Participate in all of index downside</li> <li>☒ Buy/sell decisions based on index, not research</li> </ul>

<sup>1</sup> Both vehicles are obligated to distribute capital gains to all shareholders.

## Important Information

**Carefully consider the Funds' investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Funds' prospectuses or, if available, the summary prospectuses which may be obtained by visiting [www.iShares.com](http://www.iShares.com) or [www.blackrock.com](http://www.blackrock.com). Read the prospectus carefully before investing.**

**Investing involves risk, including possible loss of principal.**

International investing involves 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 often are heightened for investments in emerging/developing markets or in concentrations of single countries.

There is no guarantee that dividends will be paid.

Funds that concentrate investments in specific industries, sectors, markets or asset classes may underperform or be more volatile than other industries, sectors, markets or asset classes and than the general securities market.

Diversification and asset allocation may not protect against market risk or loss of principal.

The strategies discussed are strictly for illustrative and educational purposes and are not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. There is no guarantee that any strategies discussed will be effective. The information presented does not take into consideration commissions, tax implications, or other transactions costs, which may significantly affect the economic consequences of a given strategy or investment decision.

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