CHOOSING THE RIGHT ETF

Getting started with iShares
OUR AGENDA TODAY

What is an ETF & why choose them

How to choose the right ETF

Get started with iShares
WHAT IS AN ETF & WHY CHOOSE THEM
WHAT ARE ETFS?

Exchange-traded funds (ETFs)

**STOCK**
- Tradable during the day

**ETFs**
- Diversified funds that trade like stocks

**MUTUAL FUND**
- Diversified

Like a stock, an ETF can be bought and sold whenever the market is open.

Like a mutual fund, an ETF is typically a collection of stocks or bonds and professionally managed.

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 boxes¹

**LOW COST**
iShares ETFs cost 1/3 as much as the typical mutual fund²

**TAX EFFICIENT**
6% of iShares ETFs on average paid capital gains distributions over the last 5 years vs. 58% of mutual funds³

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¹ 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, IJK, IJI, IJQ, IVJ, IJS, IJZ, IJT, and IJI. Past performance is no guarantee of future results. ² 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%). ³ 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 incepted 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?

<table>
<thead>
<tr>
<th>Critical questions</th>
<th>Example: choosing an ETF partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>□ How experienced is the firm in developing, managing and supporting ETFs?</td>
<td></td>
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<tr>
<td>□ What are the firm’s total assets under management and total ETF Assets?</td>
<td></td>
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<tr>
<td>□ How does the firm manage risk with market participants and index providers?</td>
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</tbody>
</table>

trusted ETF leader, $1.5 trillion in assets under management\(^1\)

20+ years of ETF experience

Powered by BlackRock, trusted to manage more money than any other firm in the world\(^2\)

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\(^1\) BlackRock, as of 3/31/19. Based on 830 ETFs and $1.75 trillion in assets under management globally.  
\(^2\) BlackRock, as of 3/31/19. Based on $6.51 trillion in assets under management.
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

**Russell 3000**
- 1-3000

**Russell Large-Cap**
- 1-1000

**Russell 2000**
- 1-200

**Russell Midcap**
- 201-1000

**Russell Microcap**

**S&P 1500**

**S&P 500**

**S&P Midcap 400**

**S&P Small Cap 600**

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

Putting indexes together

Russell 3000
1-3000

Russell Large-Cap
1-1000

Russell 200
1-200

Russell Midcap
201-1000

Russell 2000

Russell Microcap

S&P 1500

S&P 500

S&P Midcap 400

S&P Small Cap 600

MSCI Broad Market Index

MSCI Large Cap 300

MSCI Prime Cap 750

MSCI Mid Cap 450

MSCI Small Cap 1750

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

**S&P only**

<table>
<thead>
<tr>
<th>IVV</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>IJH</td>
<td>S&amp;P Mid Cap 400</td>
</tr>
</tbody>
</table>

*Zero overlapping stocks
100% coverage

**S&P + CRSP**

| S&P 500 | CRSP Mid Cap |

*255 overlapping stocks*

*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

<table>
<thead>
<tr>
<th>Index</th>
<th>Large Cap</th>
<th>Mid Cap</th>
<th>Small Cap</th>
<th>MSCI EAFE IMI</th>
<th>FTSE Developed All Cap ex-US</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI EAFE</td>
<td>85%</td>
<td></td>
<td></td>
<td>99%</td>
<td>99% market cap, 3,260 holdings</td>
</tr>
<tr>
<td>FTSE Developed</td>
<td>90%</td>
<td>20%</td>
<td>9%</td>
<td>98%</td>
<td>99% market cap, 3,877 holdings</td>
</tr>
<tr>
<td>ex US</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large Cap</td>
<td>70%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FTSE Developed ex US</td>
<td></td>
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</table>

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

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

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

- Direct investor share
- Institutional share
- Mutual fund investment pool
- Advisor-sold share
- ETF share

*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?

<table>
<thead>
<tr>
<th>Critical questions</th>
<th>Example: consider the total cost of ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the expense ratio, trading cost, and average spread?</td>
<td>ExplicIt Costs</td>
</tr>
<tr>
<td>How do the spread and volume factor into overall cost on a trade and per annum basis?</td>
<td>Expense ratio</td>
</tr>
<tr>
<td>How are internal transaction costs (including rebalancing costs) minimized?</td>
<td>Brokerage commission</td>
</tr>
<tr>
<td>How much in capital gains distributions has the fund paid in the past?</td>
<td>Implicit Costs</td>
</tr>
<tr>
<td></td>
<td>Trading costs</td>
</tr>
<tr>
<td></td>
<td>Performance vs. benchmark (tracking difference)</td>
</tr>
<tr>
<td></td>
<td>Taxes on distributions</td>
</tr>
</tbody>
</table>

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Example: consider the total cost of ownership

- **Expense ratio**
- **Brokerage commission**
- **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

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

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Mutual funds</th>
<th>ETFs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>Active</td>
<td>Passive</td>
</tr>
<tr>
<td>Performance goal</td>
<td>Outperform a benchmark and/or deliver an outcome</td>
<td>Track a benchmark</td>
</tr>
<tr>
<td>Buying / selling shares</td>
<td>Once per day via fund company</td>
<td>Intraday on exchanges</td>
</tr>
<tr>
<td>Price to buy / sell</td>
<td>End-of-day NAV, less fees</td>
<td>Current market price, which may differ from NAV</td>
</tr>
<tr>
<td>Fees</td>
<td>Expense ratio + any sales loads / redemption fees</td>
<td>Expense ratio + transaction / brokerage costs</td>
</tr>
<tr>
<td>Tax impact(^1) of buyers / sellers</td>
<td>Shareholders may be impacted by all other shareholders’ actions</td>
<td>Shareholders only impacted by their own action</td>
</tr>
<tr>
<td>Holdings disclosure</td>
<td>Typically quarterly</td>
<td>Daily</td>
</tr>
<tr>
<td>Benefits</td>
<td>☑ Opportunity to outperform the index</td>
<td>☑ Exposure to market index</td>
</tr>
<tr>
<td></td>
<td>☑ Potential to limiting the downside</td>
<td>☑ Generally lower fees</td>
</tr>
<tr>
<td></td>
<td>☑ Buy/sell decisions based on research</td>
<td>☑ Typically more tax-efficient</td>
</tr>
<tr>
<td>Trade-offs</td>
<td>☑ Potential to underperform index</td>
<td>☑ Does not seek to outperform index</td>
</tr>
<tr>
<td></td>
<td>☑ Generally higher fees</td>
<td>☑ Participate in all of index downside</td>
</tr>
<tr>
<td></td>
<td>☑ Typically less tax-efficient</td>
<td>☑ Buy/sell decisions based on index, not research</td>
</tr>
</tbody>
</table>

1 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 or 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.

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