

What is an ETF?

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Familiar ground...best of both worlds

Like a stock

- ▶ Trading flexibility intraday on the exchange
- ▶ Long or short
- ▶ Options frequently available

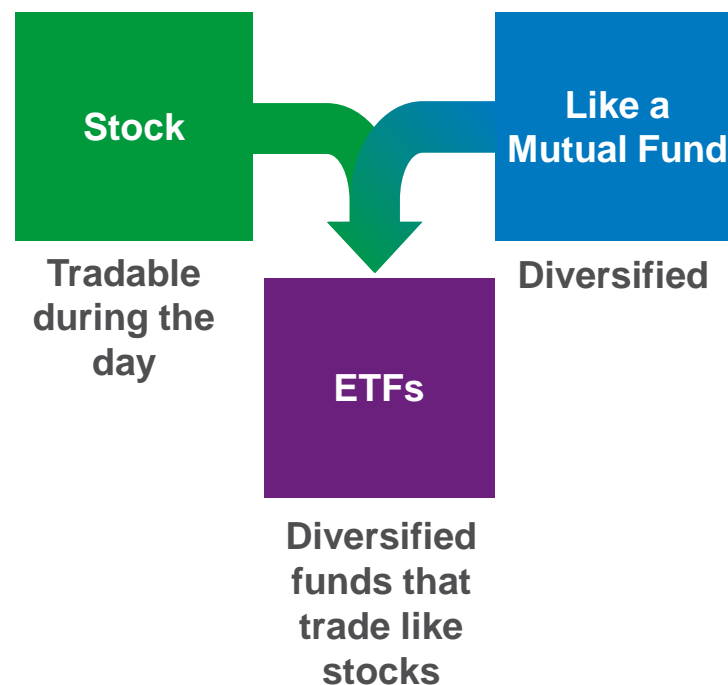
Like an index fund

- ▶ Constructed to track benchmark indexes
- ▶ Low expense ratios
- ▶ Low turnover

What sets ETFs apart?

- ▶ The creation / redemption process enables the unique benefits of ETFs such as liquid access and tax efficiency

Two great investment ideas brought together



With short sales, an investor faces the potential for unlimited losses as the security's price rises. There can be no assurance that an active trading market for shares of an ETF will develop or be maintained. Transactions in shares of the iShares Funds will result in brokerage commissions and will generate tax consequences. iShares Funds are obliged to distribute portfolio gains to shareholders. Diversification may not protect against market risk or loss of principal.

The role of ETFs: uses and advantages

Exchange Traded Funds have become widely accepted investment vehicles and are used by both institutional and retail investors

The ETF structure allows for efficient access to low-cost beta and other investment strategies

Key advantages of ETFs:

- ▶ Trade daily on exchange
- ▶ Intraday pricing
- ▶ Transparent
- ▶ Easy access
- ▶ Diversified
- ▶ Can be more liquid than underlying assets

Typical applications of ETFs:

Institutional Investors

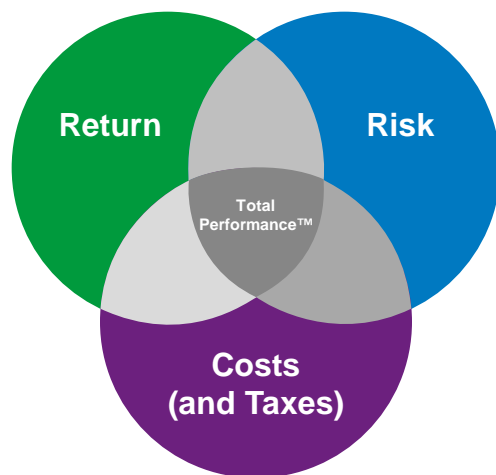
- ▶ Cash equitization
- ▶ Low cost hedging tool
- ▶ Expressing macro views
- ▶ Exposure to markets where investing institutions lack resources

Retail Investors

- ▶ Portfolio completion
- ▶ Asset allocation
- ▶ Tactical investing among sectors

Diversification may not protect against market risk or loss of principal. There can be no assurance that an active trading market for shares of an ETF will develop or be maintained.

Why do Financial Professionals use ETFs?



Seek to outperform other investments

Performance vs. active funds

Express a view

Manage risk

Diversification

Tradability and flexibility

Transparency

Spend less, save more

Cost effectiveness

Tax efficiency

Past performance does not guarantee future results. Diversification may not protect against market risk. Transactions in shares of iShares funds may result in brokerage commissions.

iShares ETFs and Mutual Funds: Key Differences

Criteria	iShares ETFs	Active Mutual Funds
Performance goal	Track a benchmark	Outperform a benchmark
Management	Passive	Active
Performance risks	<ul style="list-style-type: none"> ▶ Performance may differ from benchmark. ▶ Holdings not altered during rising / falling markets. 	<ul style="list-style-type: none"> ▶ May not meet performance goal. ▶ May underperform due to manager's holdings selection.
Buying / selling shares	Intraday on exchanges	Once per day via fund company
Price to buy / sell	Current market price, which may differ from NAV	End-of-day NAV, less fees
Fees	Expense ratio + transaction / brokerage costs	Expense ratio + any sales loads / redemption fees
Tax impact¹ of buyers / sellers	Shareholders only impacted by their own action	Shareholders may be impacted by all other shareholders' actions
Holdings disclosure	Daily	Typically quarterly

* Both vehicles are obliged to distribute capital gains to all shareholders.

Benefits of iShares ETFs

Benefits of iShares ETFs

Transparency

- ▶ Investors can generally see the ETF composition at any given time

Liquidity

- ▶ ETFs offer two sources of liquidity
 1. Traditional liquidity measured by secondary market trading volume
 2. The liquidity of the underlying assets via the creation and redemption process

Diversification

- ▶ ETFs offer immediate exposure to a basket or group of securities for diversification through a single trade
- ▶ Broad range of asset classes, including equities, bonds, commodities, investment themes, etc.

Flexibility

- ▶ ETFs are listed on exchanges and can be traded at any time the market is open
- ▶ Pricing is continuous throughout the day

Cost-effectiveness

- ▶ ETFs offer a cost-effective route to diversified market exposure
- ▶ Ability to estimate in advance the total cost of ownership using ETFs with far higher degree of certainty than with futures
- ▶ ETFs are not subject to additional operational costs when managing risk, settlement and reporting that other derivative products require

Securities lending

- ▶ ETF units and underlying assets can be lent out to potentially offset holding costs

There can be no assurance that an active trading market for shares of an ETF will develop or be maintained. Diversification may not protect against market risk or loss. Buying and selling shares of iShares Funds will result in brokerage commissions. There is no guarantee that there will be borrower demand for shares of the iShares Funds, or that securities lending will generate any level of income. Distributions paid out of the Fund's net investment income, including income from securities lending, if any, are taxable to investors as ordinary income.

Broker / Dealer primary ETF usage

AP/ETF desk	Sales trading / agency desks	Market making	Principal trading	Structured products
<ul style="list-style-type: none"> Facilitate the C/R of ETF units by trading the underlying ETF basket and delivering to the ETF provider May also act on behalf of market makers who are not authorized to transact directly with the ETF provider 	<ul style="list-style-type: none"> Recommend ETFs as a trade solution (e.g., other side of pair-trade, for quick tactical calls) and capture ETF trading flow Understand ETF trading and flows the consensus views in specific areas of the market 	<ul style="list-style-type: none"> Leverage proprietary capital, research and system resources to make profit by buying and selling ETFs intraday Used to hedge inventory positions 	<ul style="list-style-type: none"> Take proprietary risk positions utilizing ETFs for specific exposures Trade ETFs to take advantage of index arbitrage, volatility arbitrage or global macro events 	<ul style="list-style-type: none"> Develop customized and / or enhanced solutions for clients utilizing ETFs to leverage liquidity and enhance structured product flexibility Use ETF as hedge for position

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What sets ETFs apart?

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Different types of ETPs

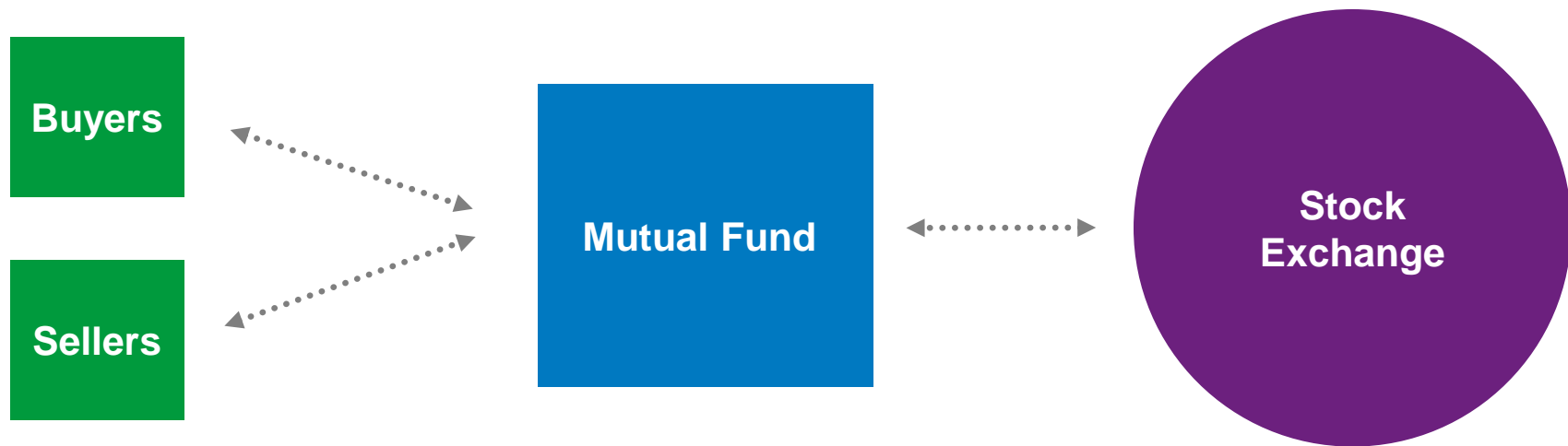
Legal Structure	
	Comments
Open End Fund	Most common structure; may allow dividend re-investment, securities lending and optimization
Grantor Trust	Structure commonly used for concentrated, specialty exposures that don't meet diversification requirements of open end funds
Unit Investment Trust	Early ETF structure; does not allow for portfolio optimization, securities lending or dividend re-investment

Underlying Assets	
	Comments
Index Securities	Securities held either as fully replicating index or optimized proxy
Swaps	Mostly used in levered or inverse funds and exotic exposures; also common in Europe
Futures	Futures contract or a basket of futures contracts held by the fund, most common for broad commodities
Physical Assets	Most common in metals ETPs
Notes	Exchange Traded Notes (ETNs) are debt obligations of the issuer to the holder

"ETP" (or exchange traded product) as referred to above means any portfolio exposure security that trades intraday on an exchange. ETPs include exchange traded funds (ETFs) registered with the SEC under the Investment Company Act of 1940 (open-end funds and unit investment trusts or UITs) and certain trusts, commodity pools and exchange traded notes (ETNs) registered with the SEC under the Securities Act of 1933.

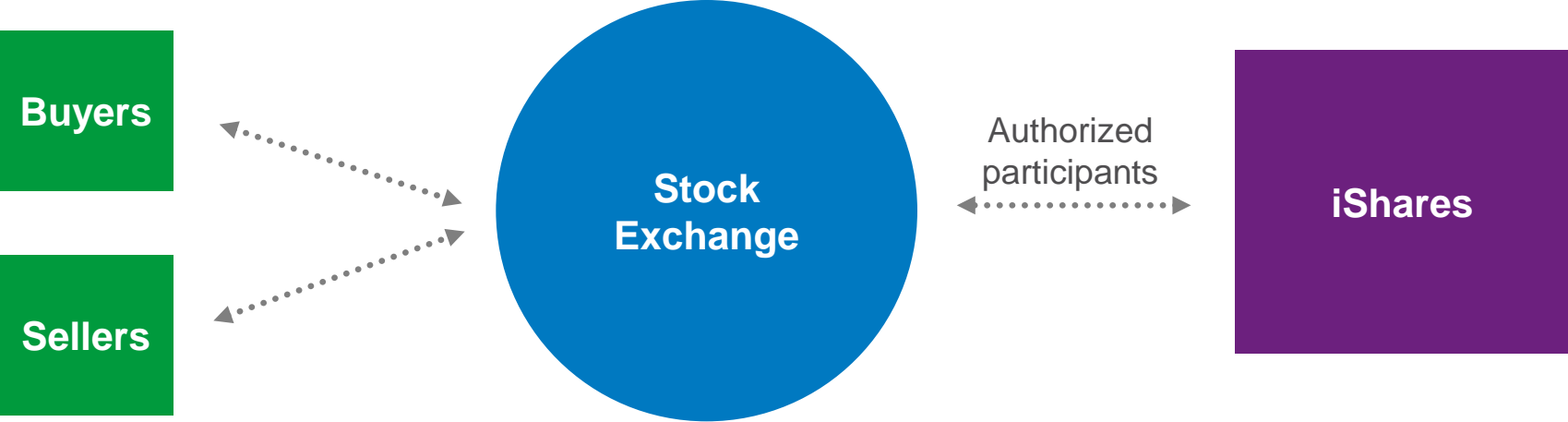
Mechanics of iShares ETFs

How traditional mutual funds work



Investors interact with the fund to buy or sell shares

ETFs work differently than traditional mutual funds



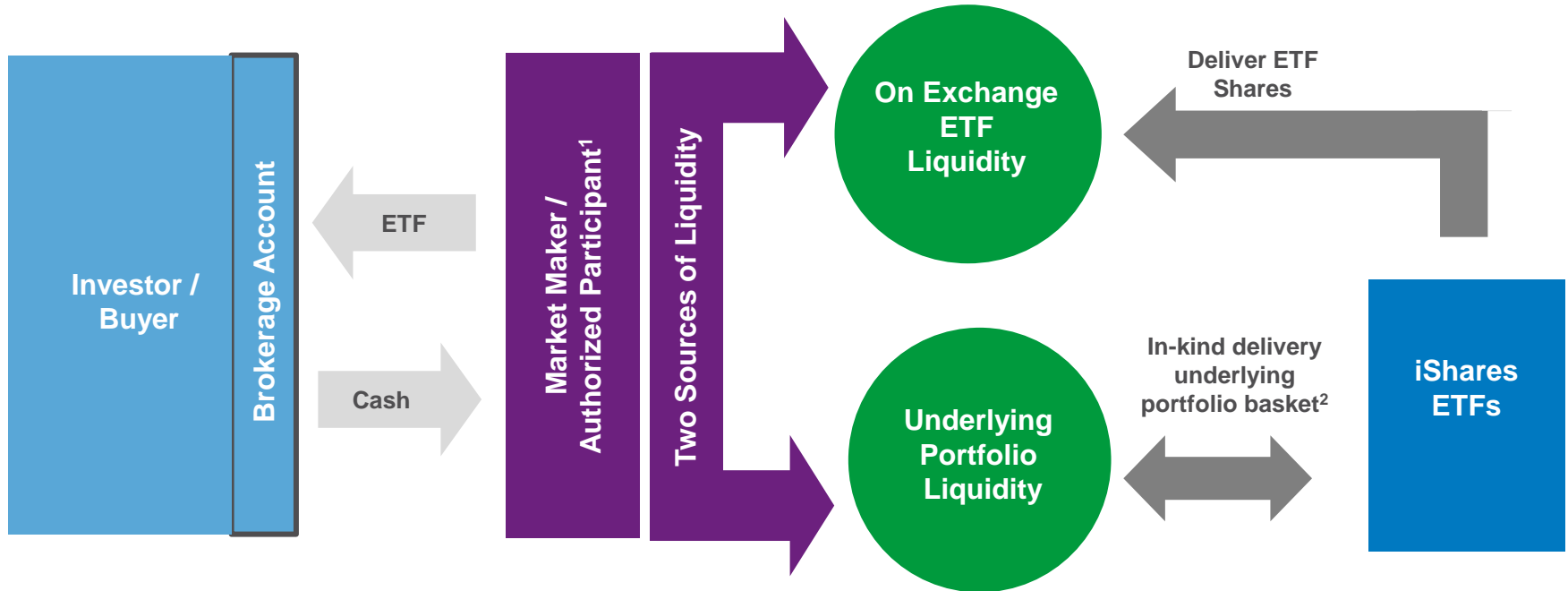
Investors buy and sell on an exchange and are insulated from each other's actions.

Authorized Participants are typically large institutional organizations, such as market makers, who are responsible for sourcing the underlying assets needed when creating units of an ETF/receiving underlying assets when redeeming units of an ETF.

The innovative mechanism of iShares ETFs

Creation and redemption

The creation / redemption process distinguishes ETFs from mutual funds and closed-end funds and enables the unique benefits of ETFs



The creation / redemption process is the conductor of liquidity between ETFs and their underlying assets

1. Authorized Participants are typically large institutional organizations, such as market makers, who are responsible for sourcing the underlying assets needed when creating units of an ETF/receiving underlying assets when redeeming units of an ETF. There can be no assurance that an active trading market for shares of an ETF will develop or be maintained.
2. Must occur in creation/redemption unit standard sizes, generally in multiples of 50,000 shares.

Key iShares ETF valuation terms

Net Asset Value (NAV): End of day value for the fund

- ▶ Based on previous day closing prices of underlying securities
- ▶ Monitoring value of portfolio, used to assess long-term tracking error

Indicative Optimized Portfolio Value (IOPV): Intraday, estimated value of the ETF's underlying portfolio baskets

- ▶ Based on recent trades and estimated value of securities
- ▶ Does not include impact of transaction costs and risk estimates to acquire underlying securities

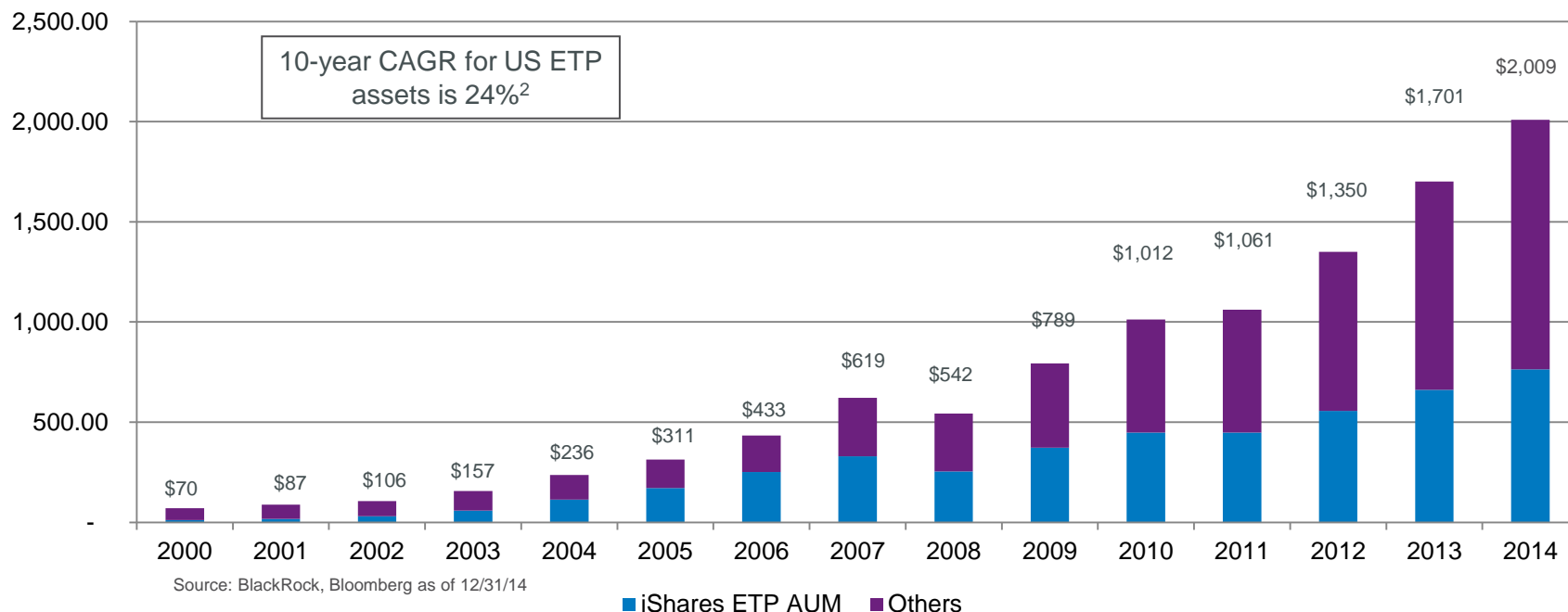
Bid/Offer Price: Current value of ETF based on all public information

- ▶ Based on best bid/ask spreads
- ▶ Proxy for expected trade value because it includes estimates of transaction costs and risk of acquiring underlying securities

Growth of Exchange Traded Funds (ETFs)

Growth of exchange traded funds in the US

Increasing adoption of exchange traded products (ETPs)¹



Notable statistics³

- ▶ US ETP AUM has risen from \$70.6 billion in 2000 to \$2 trillion in 2014. US ETPs had ~\$124 billion of inflows in 2014
- ▶ iShares is the largest ETP provider in the US, with \$763 billion of the \$2 trillion in 2014, representing a 38% market share
- ▶ ETFs represented ~25% of U.S. daily equity trading volume in 2014³

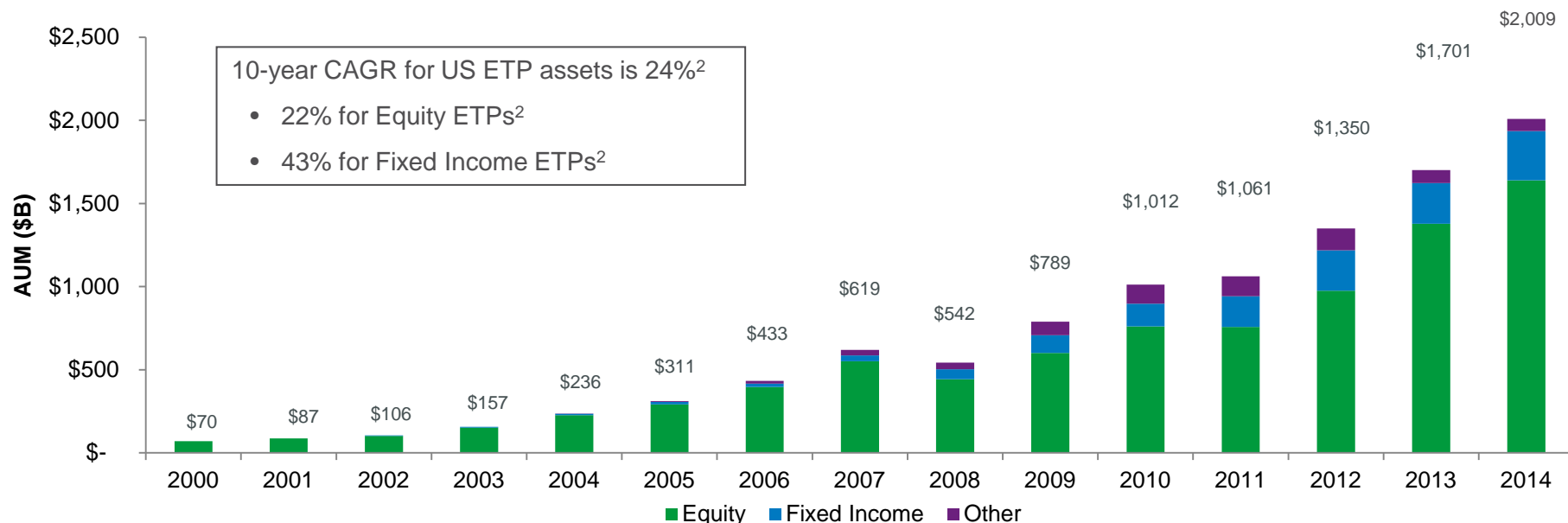
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2. 10-year CAGR as of December 31, 2014. ETP flows and assets are sourced using shares outstanding and net asset values from Bloomberg. Inflows for years prior to 2010 are sourced from Strategic Insights Simfund. Asset classifications are assigned by the BlackRock based on product definitions from provider websites and product prospectuses. Other static product information is obtained from provider websites, product prospectuses, provider press. The 10-year CAGR for Equity and Fixed Income ETPs are calculated by BlackRock.

3. Source: NYSE Arca/vision.

Growth of exchange traded funds in the US

Increasing adoption of exchange traded products (ETPs)¹



Source: BlackRock, Bloomberg, ICI as of 12/31/14. "Other" category includes alternatives, commodities, currency, target date, asset allocation, and fund of funds.

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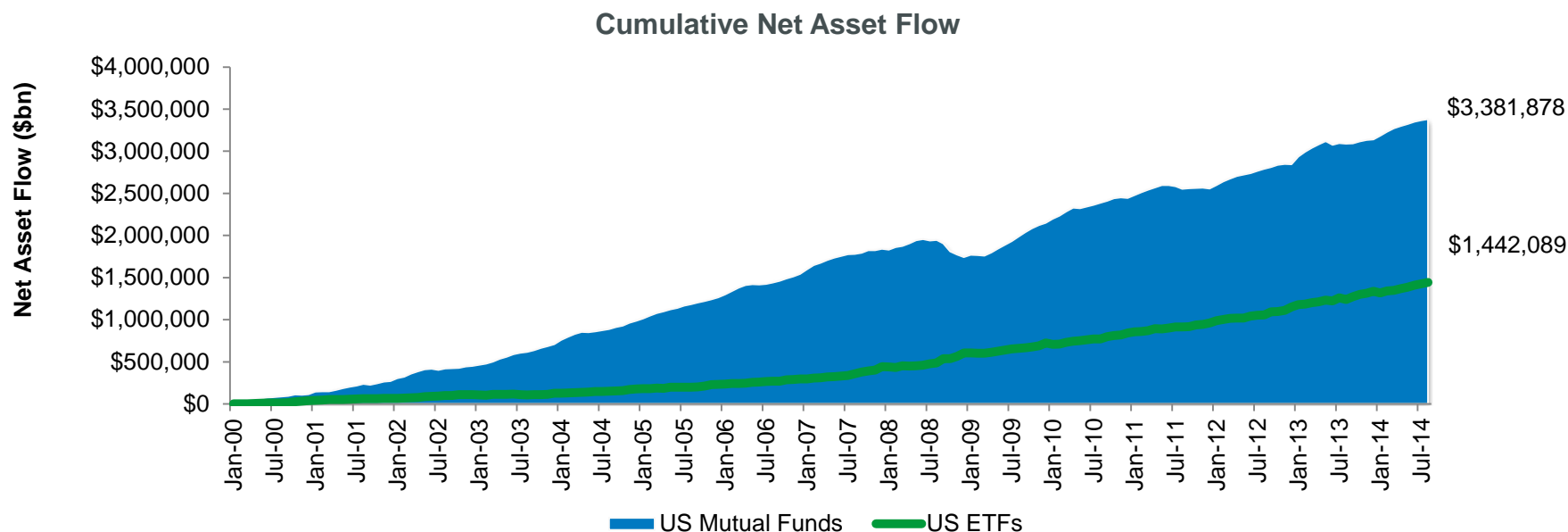
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Growth has been steady in both ETFs and mutual funds

- ▶ Since 2000, cumulative asset flow into US ETFs has been less than half that of traditional open-end mutual funds
- ▶ A notable difference in the growth patterns is the negative flows in mutual fund assets during the financial crisis and a slight increase in ETFs – likely due to:
 - ETF liquidity in difficult-to-trade markets
 - Intraday trading of ETFs, which allows investors to react in real time
 - Ability to short ETFs



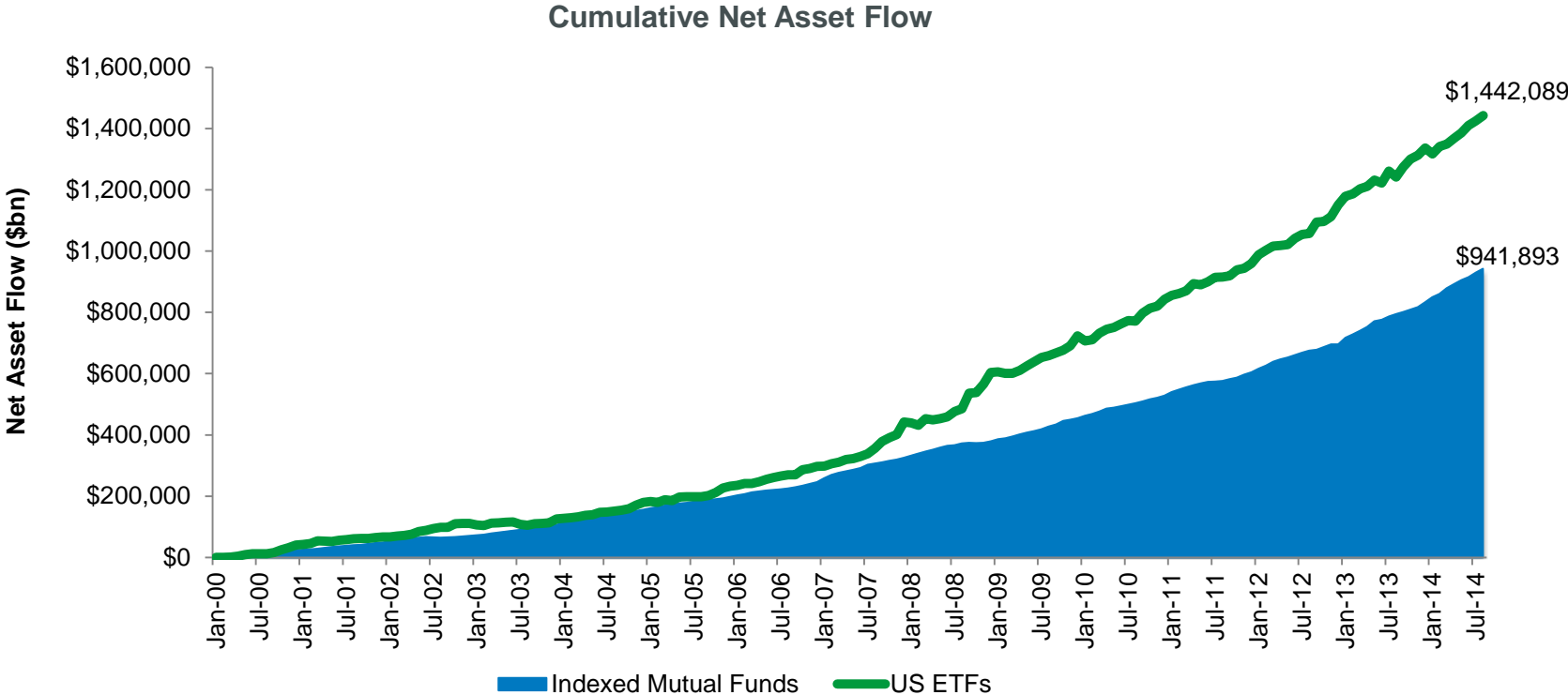
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January 200 to July 2014

Source: Morningstar, BlackRock as of July 31, 2014. Universe includes existing and closed US-domiciled, USD-denominated funds.

ETF growth has outpaced indexed mutual funds

▶ Comparing the growth in ETF net asset flow to indexed open-end mutual funds shows a very different story

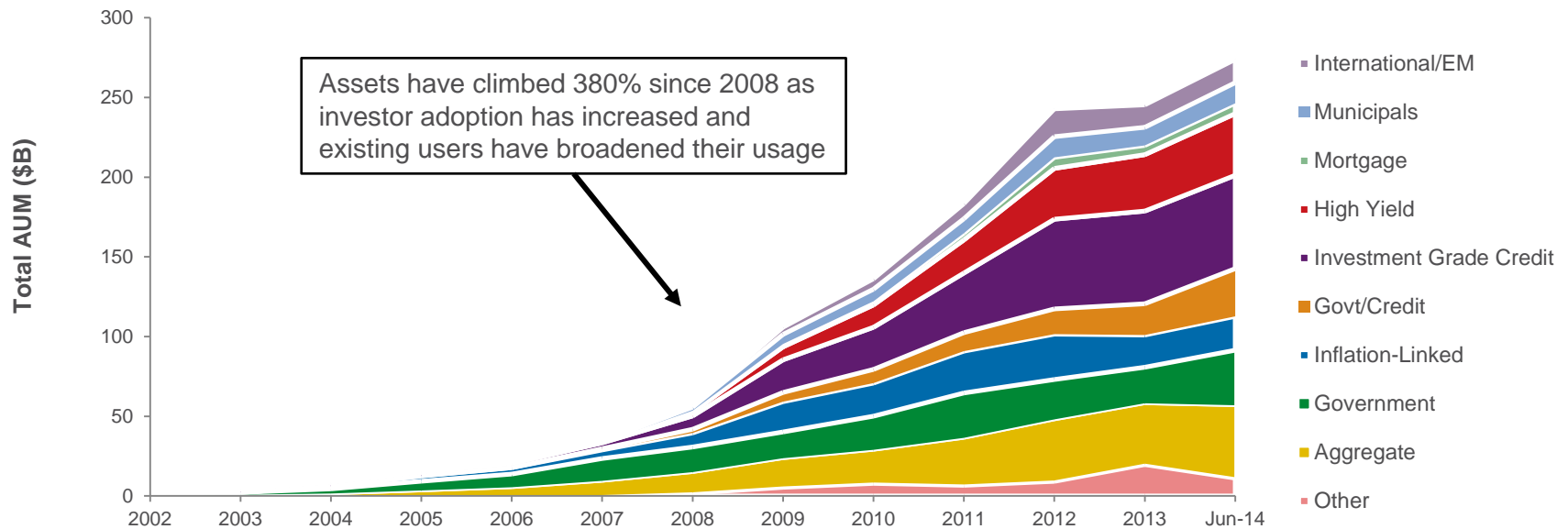


January 200 to July 2014

Source: Morningstar, BlackRock as of July 31, 2014. Universe includes existing and closed US domiciled, USD denominated funds classified as "Indexed" by Morningstar (some ETFs are not in this category). ETF data excludes funds classified as "Actively Managed."

Growth of Fixed Income ETFs

US Fixed Income ETF AUM is Over \$270B



- ▶ Fixed income ETF usage has grown significantly, solving many challenges of trading in the OTC market
- ▶ Growth in fund size, breadth of bond market exposures, and liquidity have continued to drive increased adoption of ETFs
- ▶ A wide cross section of investors, such as endowments and foundations, asset managers, insurance companies, and pension funds are now pioneering new investment approaches using ETFs

Source: BlackRock and Bloomberg as of 6/30/14.