

The Growth Bond ETFs

**Trends in Institutional Adoption, Rise of Fixed Income Indexing and
FAQs on Bond ETFs**

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US Fixed Income iShares Strategy

Global Fixed Income, BlackRock

November 2019

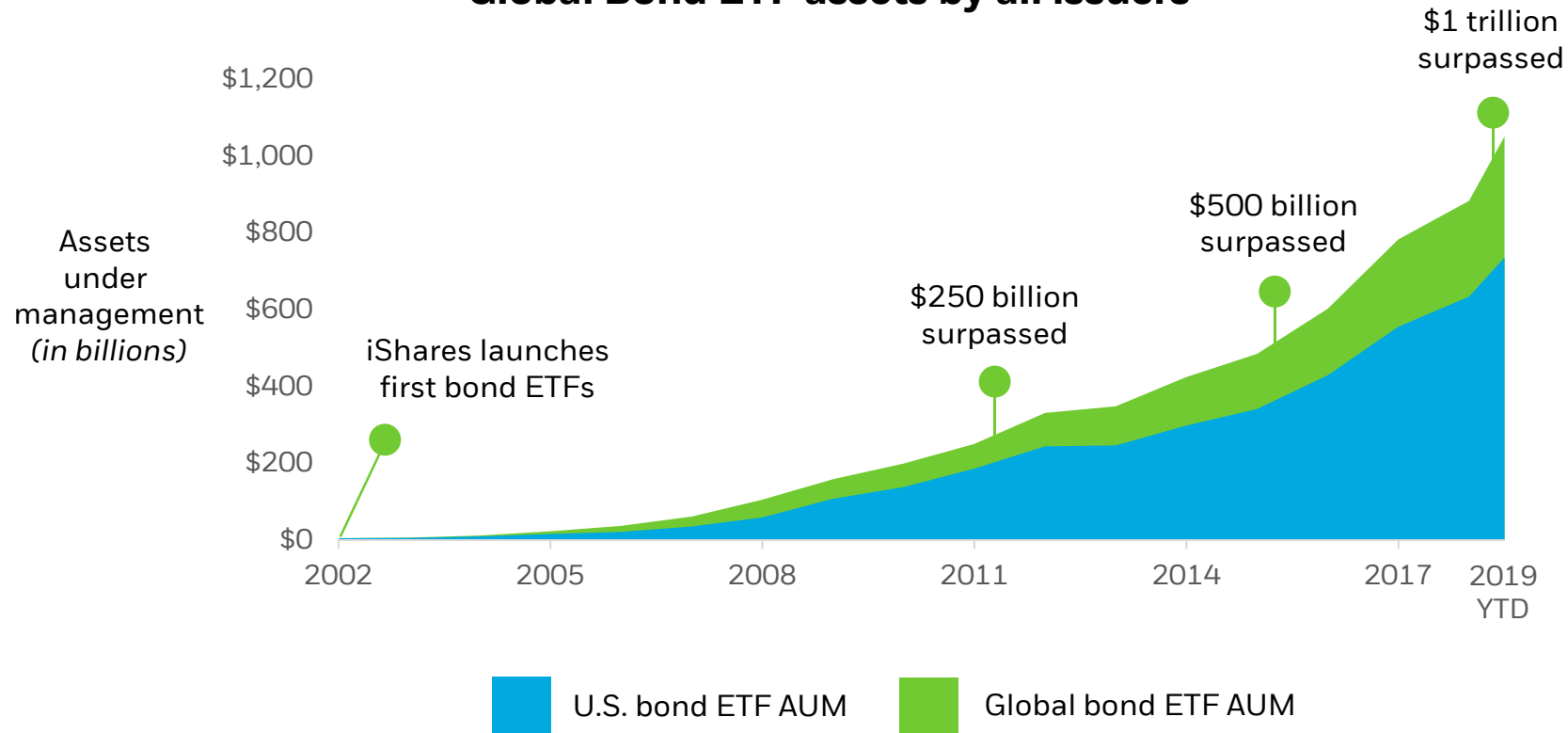
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iShares[®]
by BlackRock

MKTGM1019U-966994-1/65

Bond ETFs are growing exponentially

Global Bond ETF assets by all issuers¹



By 2024, BlackRock believes that global bond ETF assets will double to \$2 trillion²

¹ BlackRock, GBI, Bloomberg (as of June 2019).

² BlackRock (as of June 2019).



**BOND ETFS NOW
MAKE UP MORE
THAN \$1 TRILLION
OF TODAY'S BOND
MARKET**

Four secular trends driving bond ETF growth



Source: BlackRock (as of June 2019).

Commission-free Trading

Commission-free trading will help **entrench ETFs** as essential portfolio building blocks, enabling investors to better focus on the quality of funds instead of the upfront charges associated with buying them. The result is **holistic portfolio construction** that emphasizes the outcomes investors need to achieve their goals.

– Armando Senra, Head of US iShares

Source: BlackRock (as of June 2019).

An evolution in portfolio construction

Fixed income investors have a growing investment toolset



Cash bonds



Derivatives



Index & ETFs

**The next
\$1 trillion**

It happened.

ETFs have simplified bond investing.

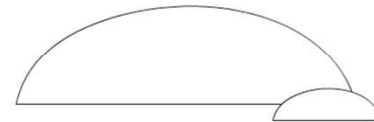
But this is just the beginning.

It took 17 years to reach \$1 trillion. As more and more investors continue to experience all the benefits of bond ETFs, assets are expected to double, to \$2 trillion, by 2024.

Source: BlackRock (as of June 2019).

Rise of Fixed Income Indexing

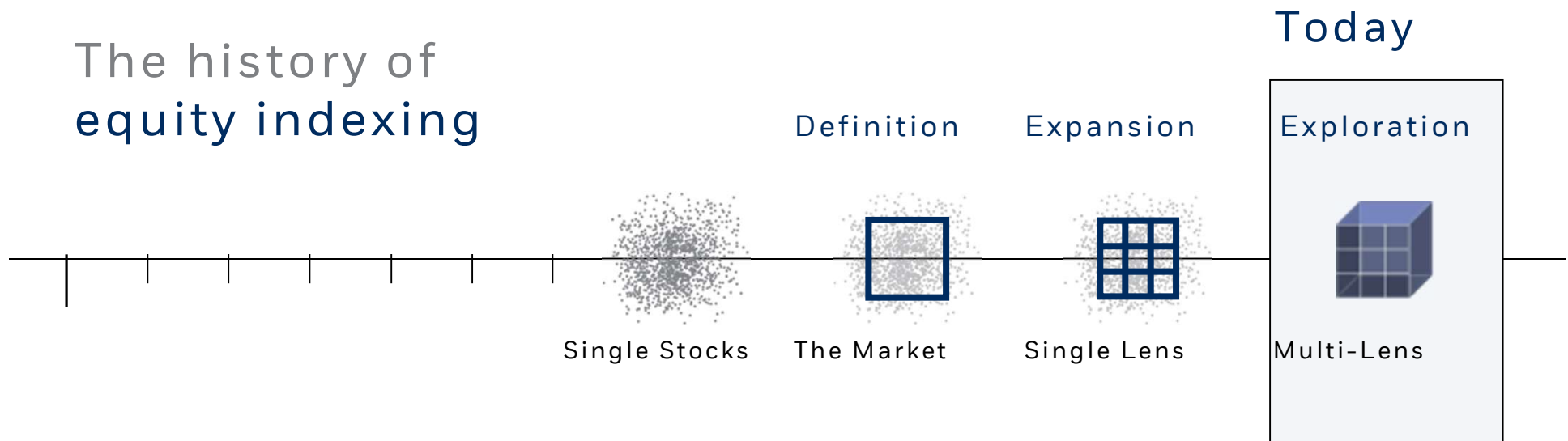
For a long time...
In the 6th Century BC...



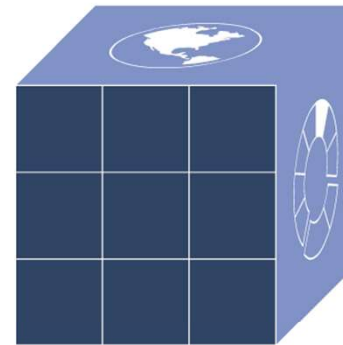
Why?

What were we thinking?
myth. misunderstanding.

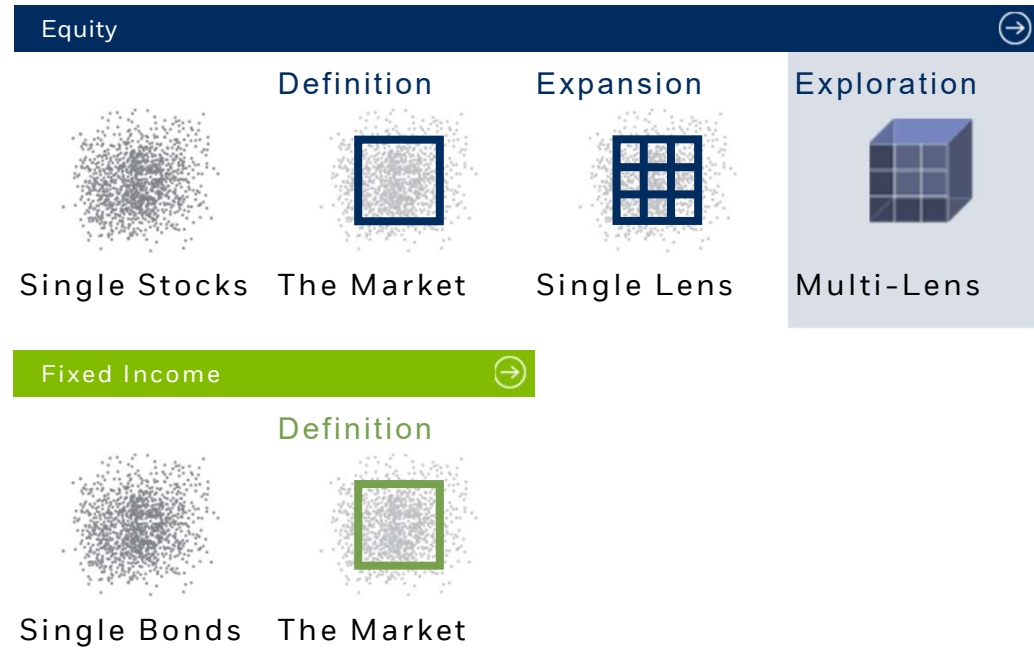
The history of equity indexing



Equities - Indexing
empowers Investors

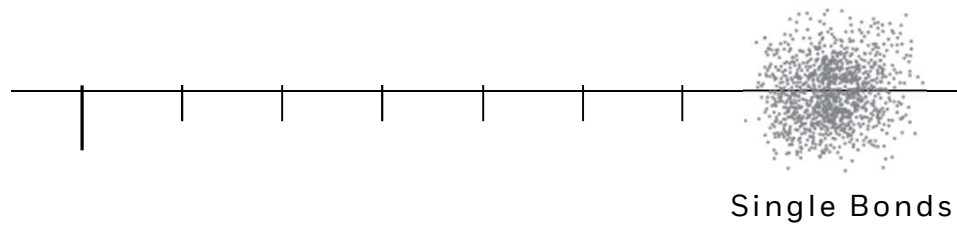


What about Fixed Income?



For illustrative purposes

The history of Fixed Income Indexing...



Perception



The **Fixed Income**
market
is twice the size of the
equity market.

Market Value (\$ USD Trillion)



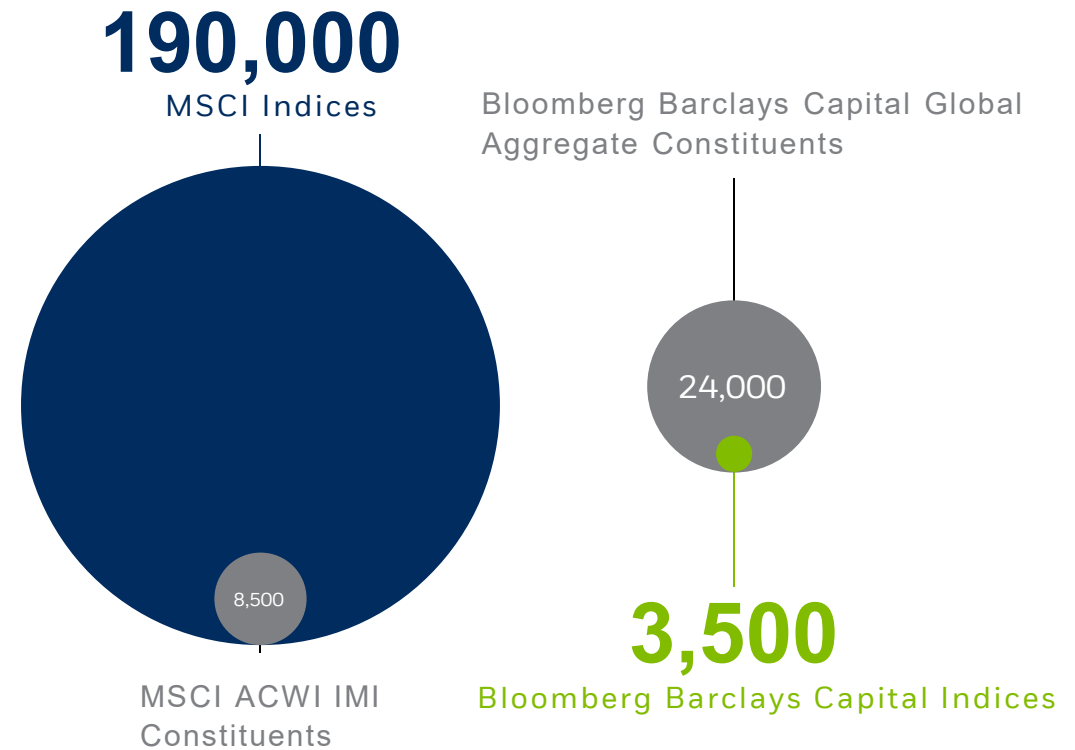
Equities



Fixed Income

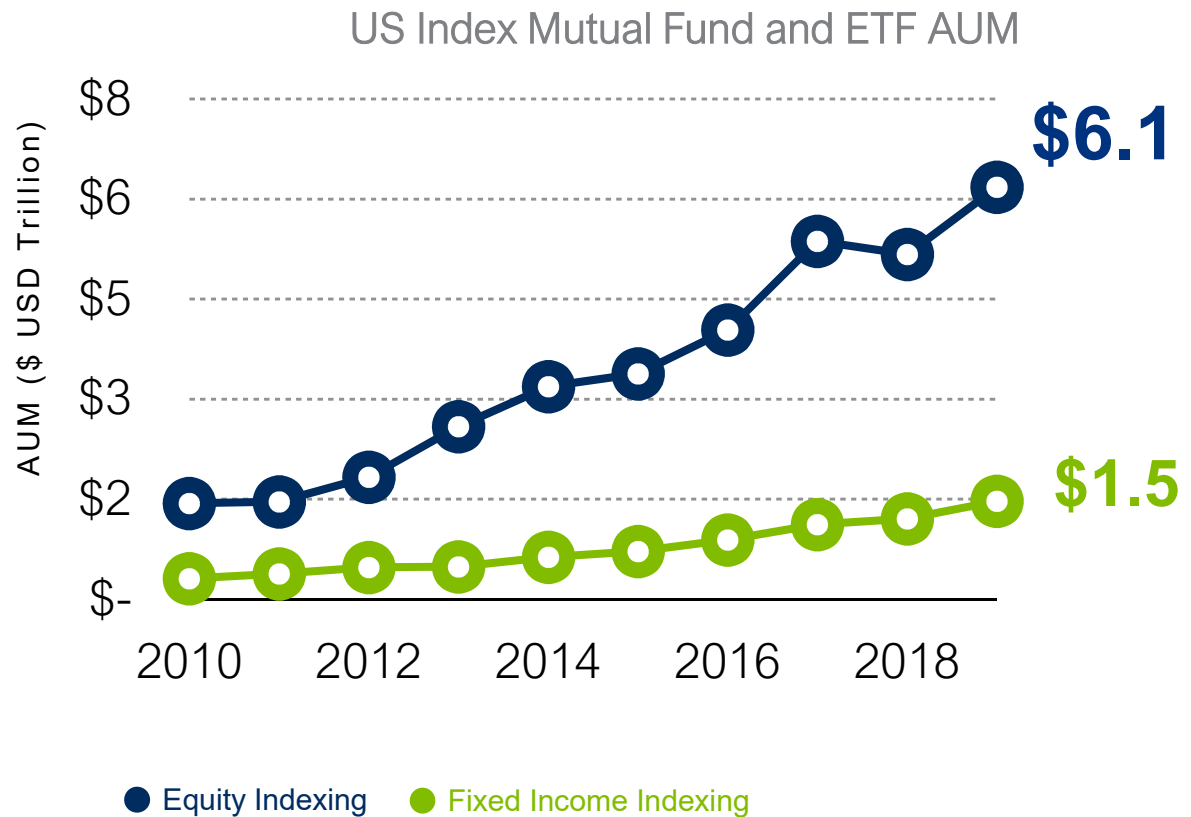
The **Fixed Income market** is twice the size of the equity market.

But, bondindexing is far less developed



Source: Morningstar Direct, Bloomberg and Barclays as of 9/30/19; MSCI 10K. Note constituents rounded to nearest thousandth.

Indexing in
Fixed Income is
ten years behind
equities...



Source: Morningstar as of 9/30/19

What is holding
Fixed Income Indexing
back?

Are bonds really
any different?

Single Bonds

Perception

Definition

Expansion

Exploration



The Market

the challenge



Familiarity

Benchmarks

Portfolio
Construction

Misconceptions

Familiarity

DOW CLOSES ABOVE 22,000

Source: CNBC, 01/08/2017

S&P 500 SURGES TO RECORD HIGH

Source: Reuters 11/09/2017



‘The myth’

Going passive means buying
the whole market



‘The reality’

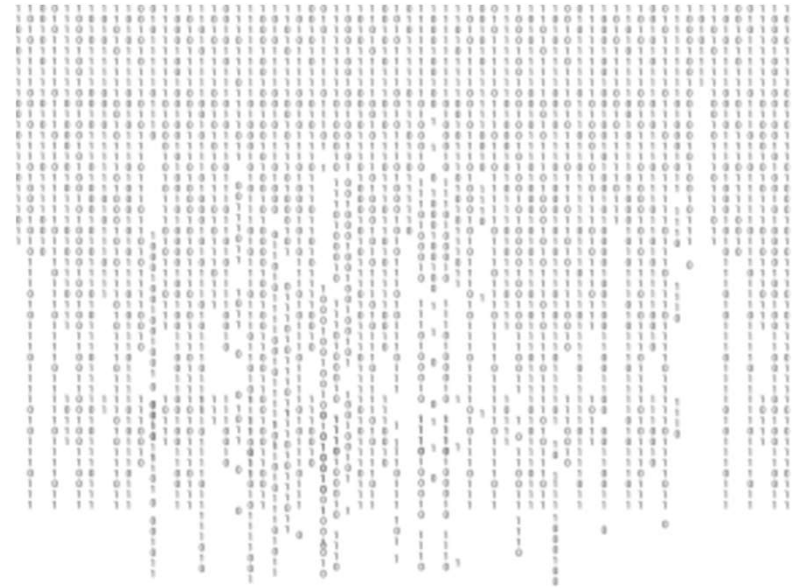
Not one size fits all

‘The benefits’

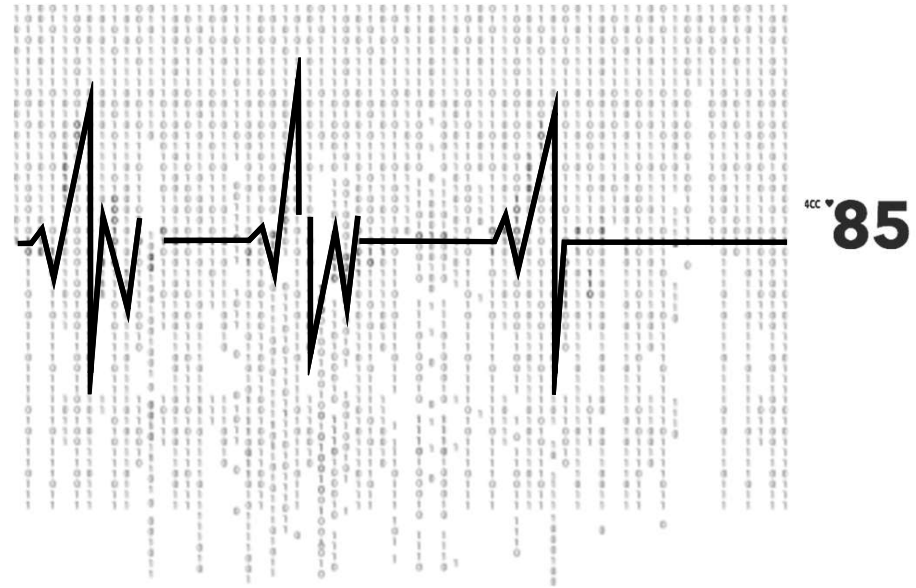
Precision, choice and control



‘The myth’
Indexing fixed income is
inefficient and risky



‘The reality’
Pragmatic and intelligent
management



‘The benefits’
Diversified and transparent
exposure vehicles



Know your benchmarks

Question #3

How much **high yield** is in the Bloomberg Barclays U.S. Aggregate Bond Index?

A.
3.1%

B.
5.9%

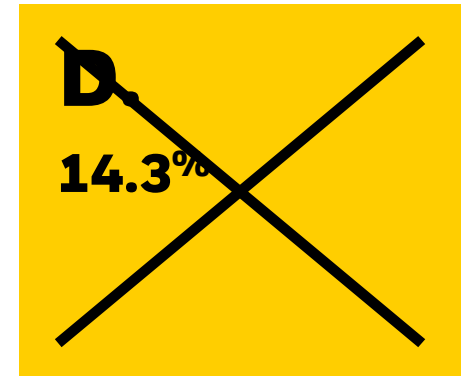
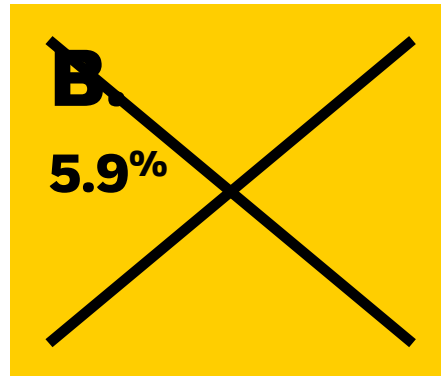
C.
9.2%

D.
14.3%

Know your benchmarks

Question #3

How much **high yield** is in the Bloomberg Barclays U.S. Aggregate Bond Index?



Sorry...trick question!

BENCHMARKS

How much high yield is in the Bloomberg Barclays U.S. Aggregate Bond Index?

Answer: 0%

The BBG Bar
Cap Agg. is

0%

high yield...

30%

Investment
Grade MBS

39%

U.S. Treasuries

...but how
much high
yield is in
your core
bond fund?

31%

Investment
Grade Credit

Source: BlackRock Solutions, as of 1/31/19.

BENCHMARKS

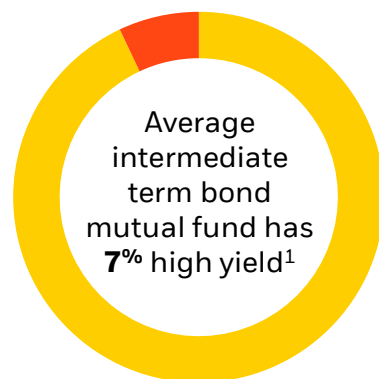
How much high yield is in the Bloomberg Barclays U.S. Aggregate Bond Index?

Answer: 0%

THE PROBLEM

Bond funds were straying from the benchmark

7% high yield



93% investment grade

THE SOLUTION

Morningstar Intermediate Term Bond Category splits into two ²

NEW

Morningstar Intermediate Term
Core Bond Category

Benchmark:
Bloomberg
Barclays U.S.
Aggregate
Bond Index

100%
Investment grade

AGG

**iShares Core U.S.
Aggregate Bond ETF**
0.05% expense ratio*

NEW

Morningstar Intermediate Term
Core Plus Bond Category

Benchmark:
Bloomberg
Barclays U.S.
Universal
Bond Index

8% high yield
92% investment grade¹

IUSB

**iShares Core Total USD
Bond Market ETF**
0.06% expense ratio*

Know what you own in your core bond fund

¹Source: Morningstar. U.S. Universal Bond Index credit quality as of 12/31/18. Intermediate-Term Bond credit quality uses the 5 year average ending 12/31/18. ²Effective May 1, 2019, Morningstar split the \$1.4 trillion Intermediate Term Bond Category to better align mutual fund holdings and ETFs with appropriate benchmarks. * Expense ratios are shown below ticker symbols. Contractual fee waivers are in effect for AGG and IUSB through 6/30/26 and 2/29/24 respectively. Gross expenses for this fund are 0.06% and 0.07% respectively.

BENCHMARKS

How much high yield is in the Bloomberg Barclays U.S. Aggregate Bond Index?

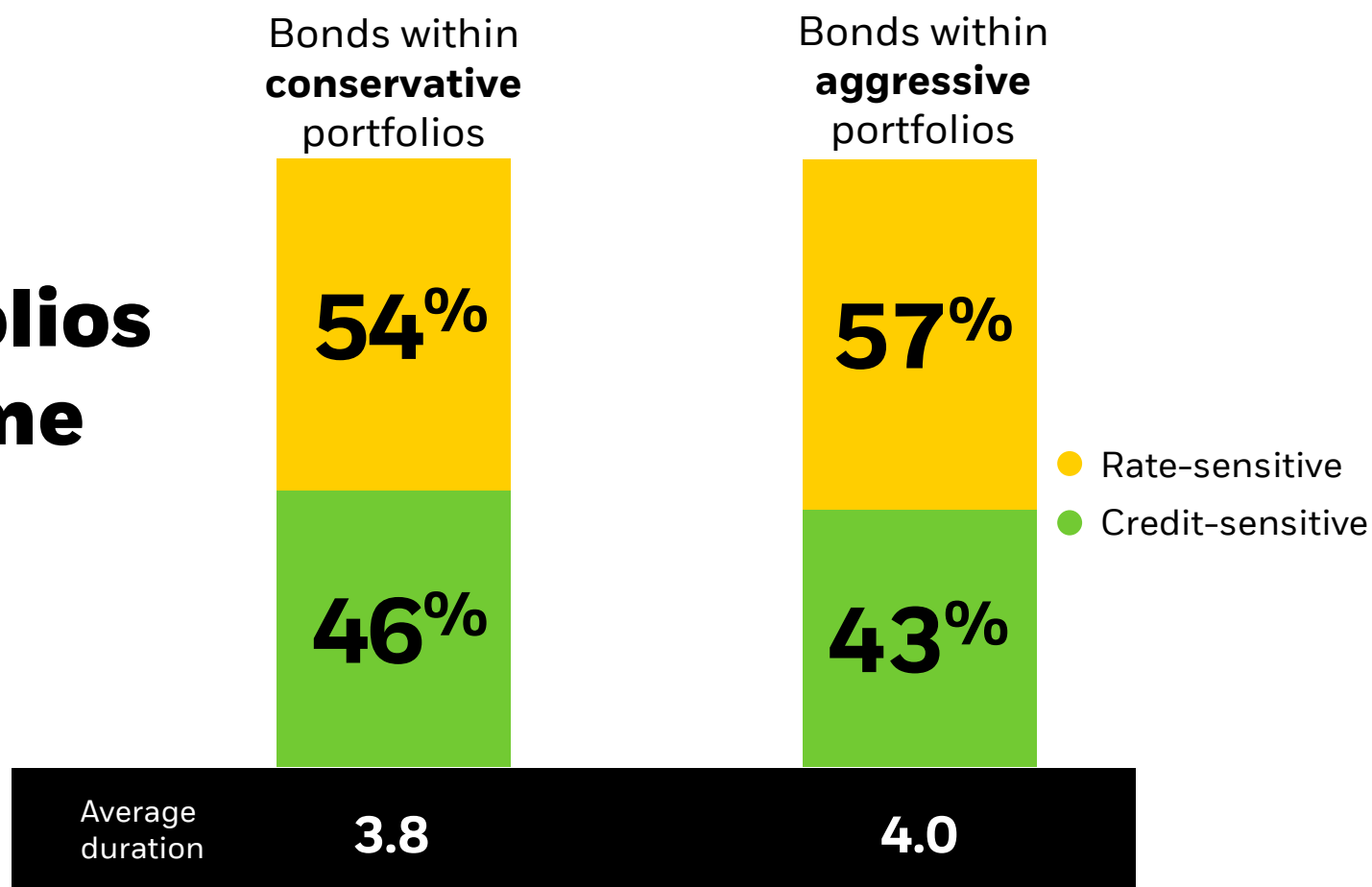
Answer: 0%

Am I looking at the right benchmark?		Does my fund beat the category?	
		1 year returns	5 year returns
Core	AGG iShares Core U.S. Aggregate Bond ETF 0.05% expense ratio*	10.14% ✓	3.30% ✓
	Morningstar Intermediate Core Bond Category 0.66% average expense ratio	9.31%	2.92%
Core Plus	IUSB iShares Core Total USD Bond Market ETF 0.06% expense ratio*	10.03% ✓	3.50% ✓
	Morningstar Intermediate Core-Plus Bond Category 0.79% average expense ratio	9.12%	3.21%

Source: Bloomberg, Morningstar, as of 8/31/19. Returns based on NAV. **Past performance does not guarantee future results. For standardized performance, see the Standardized performance pages at the end of the presentation.** *Contractual fee waivers are in effect for AGG and IUSB through 6/30/26 and 2/29/24 respectively. Gross expenses for this fund are 0.06% and 0.07% respectively.

One size does not fit all

**Bond portfolios
look the same**



Average fixed income allocation source: Morningstar, BlackRock as of 3/31/2019.

Rate-sensitive fixed income Morningstar categories include: Corporate Bond, Inflation-Protected Bond, Intermediate Government, Intermediate-Term Bond, Long Government, Long-Term Bond, Static Intermediate Bond, Static U.S. Government, and all Municipal categories. **Credit-sensitive** fixed income Morningstar categories include: Convertibles, Bank Loan, Emerging Markets Bond, Emerging-Markets Local-Currency Bond, High Yield Bond, Multisector Bond, Nontraditional Bond, Preferred Stock, and High Yield Muni. Duration source: Morningstar, BlackRock as of 3/31/19.

FAQs on Bond ETFs

1

How are bond ETFs managed?

2

Are bond ETFs more liquid than the bond market?

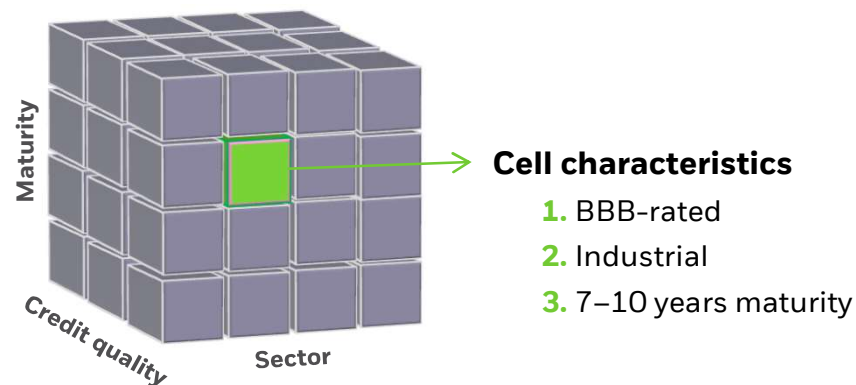
3

What happens to Bond ETFs in stressed markets?

MYTHS

How are bond ETFs managed?

- When full replication is not practical, portfolio managers may employ stratified sampling
- The benchmark is divided into subsets (cells) based upon relative risk factor parameters
- Representative bonds are selected from each cell as portfolio managers seek to balance liquidity, transaction costs, and overall portfolio tax efficiency



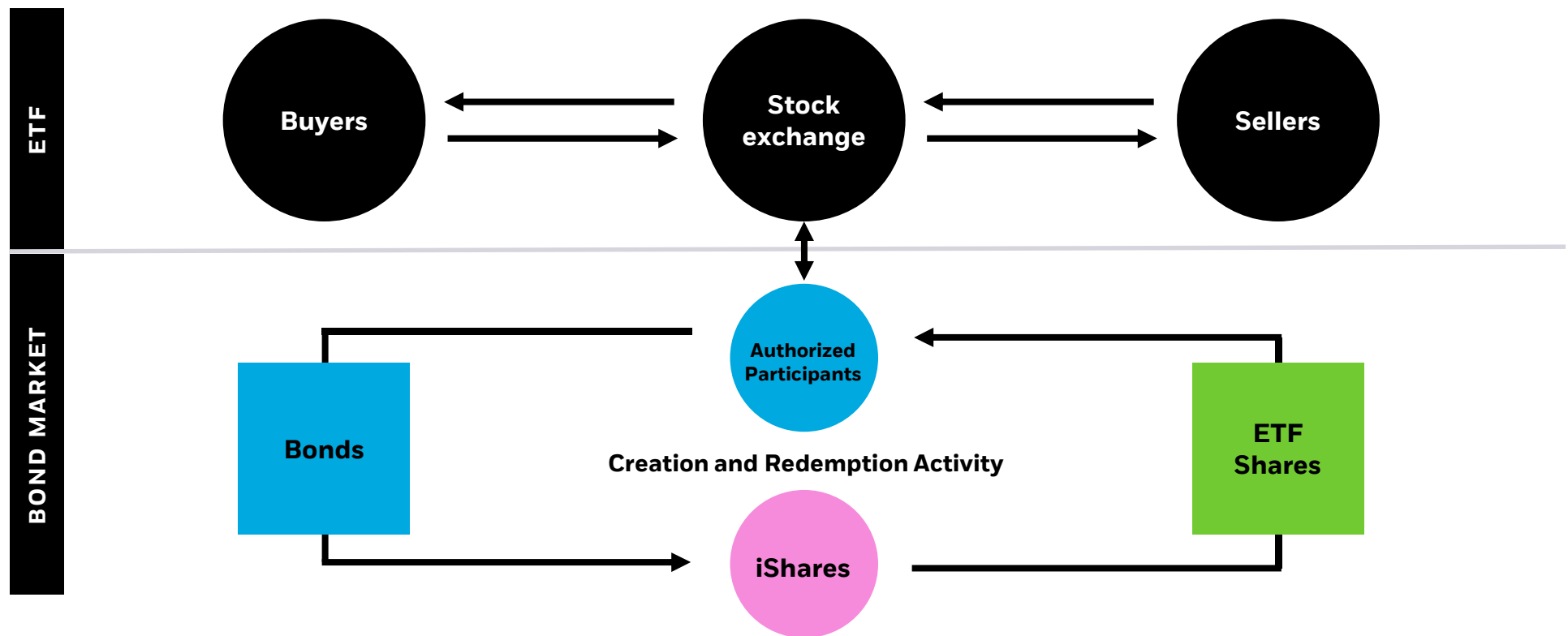
Bond Market Sector	Risk Factors
US Treasury	<ul style="list-style-type: none"> • Interest Rate (Duration)
Corporate Bonds	<ul style="list-style-type: none"> • Interest Rate • Sector • Credit rating / Credit Spread • Optionality or Call features
Mortgages	<ul style="list-style-type: none"> • Issuer (FNMA, GNMA, FHLMC) • Coupon • Vintage • Prepayment Risk
Municipal	<ul style="list-style-type: none"> • State • Security Type (GO / Revenue) • Interest Rate • Optionality or Call Features
International and Emerging Markets	<ul style="list-style-type: none"> • Country / Currency • Interest Rate • Sector

For illustrative purposes only.

MISCONCEPTIONS

Are bond ETFs more liquid than the bond market?

Investors interact primarily on the secondary market, but the liquidity of an ETF extends to the underlying bond markets.



For illustrative purposes only. Shares of iShares ETFs may be bought and sold throughout the day on the exchange through any brokerage account. Shares are not individually redeemable from the ETF, however, shares may be redeemed directly from an ETF by Authorized Participants, in very large creation/redemption units. There can be no assurance that an active trading market for shares of an ETF will develop or be maintained.

MISCONCEPTIONS

What is one of the top reasons institutions use bond ETFs?

Answer: Liquidity

Top three reasons
institutions use bond ETFs:

Liquidity

Easy to use

Fast execution

2018 Greenwich Associates survey

83%

of respondents said
better liquidity drives
their use of bond ETFs¹

Mutual fund
managers

Pension
funds

Insurance
companies

\$50M

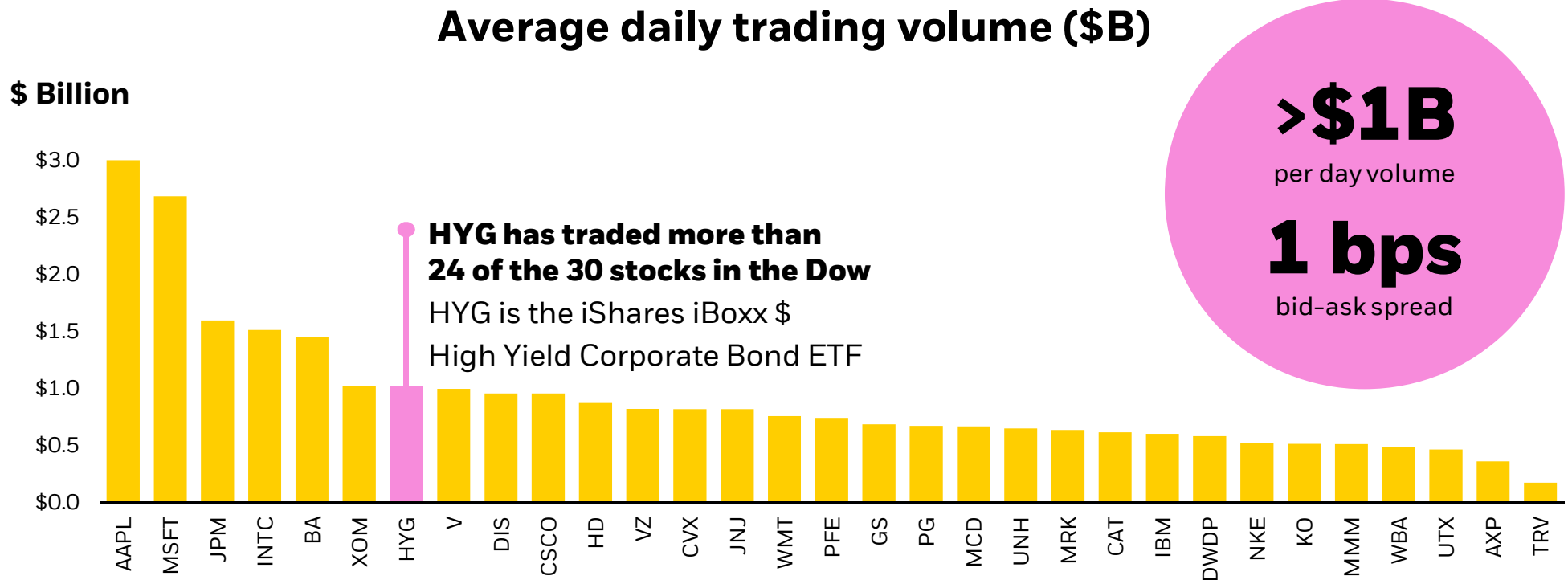
1 in 5 institutions surveyed
have executed bond ETF
trades **over \$50 million**²

¹ Source: Greenwich Associates 2018. Bond ETF Study: Institutional Investors Embrace Bond ETFs. Based on 108 survey respondents. ² Source: Greenwich Associates 2017. Bond ETF Study: Institutional Investors Embrace Bond ETFs. Based on 87 survey responses. There can be no assurance that an active trading market for shares of an ETF will develop or be maintained.

MISCONCEPTIONS

What is one of the top reasons institutions use bond ETFs?

Answer: Liquidity



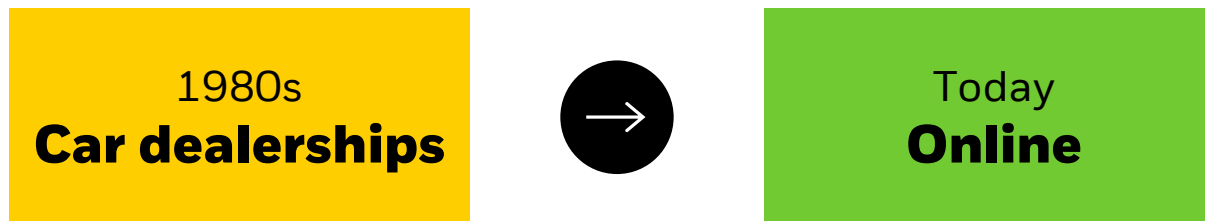
Source: Bloomberg, BlackRock, S&P Dow Jones, as of 12/31/18. Volume based on full year average. There can be no assurance an active trading market for shares of an ETF will develop or be maintained. HYG spread data as per NYSE Arca, Bloomberg as of 10/12/2018.

MISCONCEPTIONS

What is one of the top reasons institutions use bond ETFs?

Answer: Liquidity

Think about how you used to buy cars



KEY MARKETS	<100 cars per lot ¹	Massive
TRADING SPREADS	Negotiated	All-to-all
PRICING	Asymmetric	Transparent
INFORMATION	Undisclosed	Disclosed

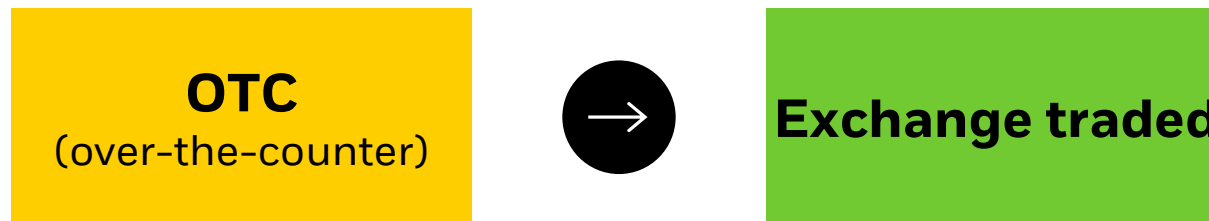
¹ Source: NIADA 2017 Used Car Industry Report; 90% of car dealerships had inventory less than 100 vehicles.

MISCONCEPTIONS

What is one of the top reasons institutions use bond ETFs?

Answer: Liquidity

More liquidity, greater inventory and tighter spreads



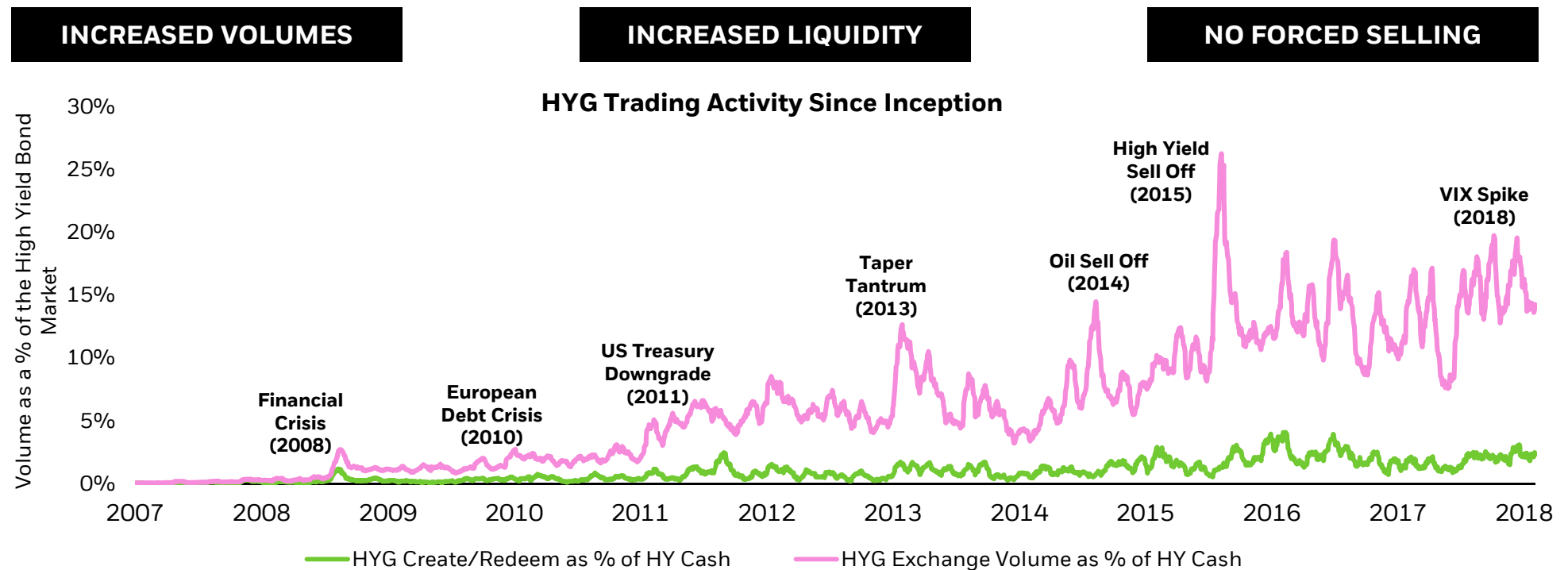
KEY MARKETS	Bonds, penny stocks	Stocks, ETFs
TRADING SPREADS	Higher ¹	Lower
PRICING	1-to-1 negotiated	All-to-all
INFORMATION	Proprietary	Public

¹ Source: BlackRock, Bloomberg, Barclays, NYSE Arca, as of 6/29/2018. Compares basket bid/offer spread of iShares bond ETFs vs the underlying securities of the indexes. There can be no assurance that an active trading market for shares of an ETF will develop or be maintained.

MISCONCEPTIONS

What happens to bond ETFs in stressed markets?

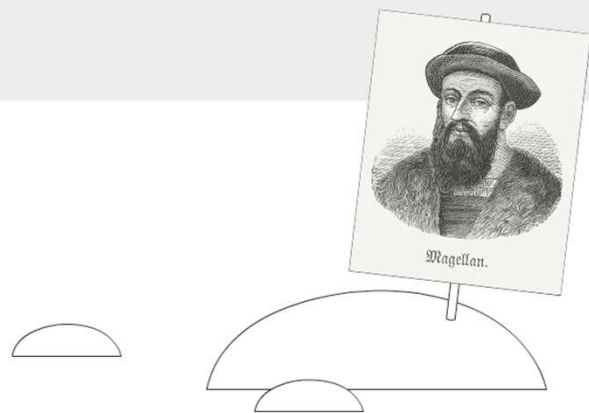
Historically, Bond ETFs have traded MORE, not less, during times of market stress



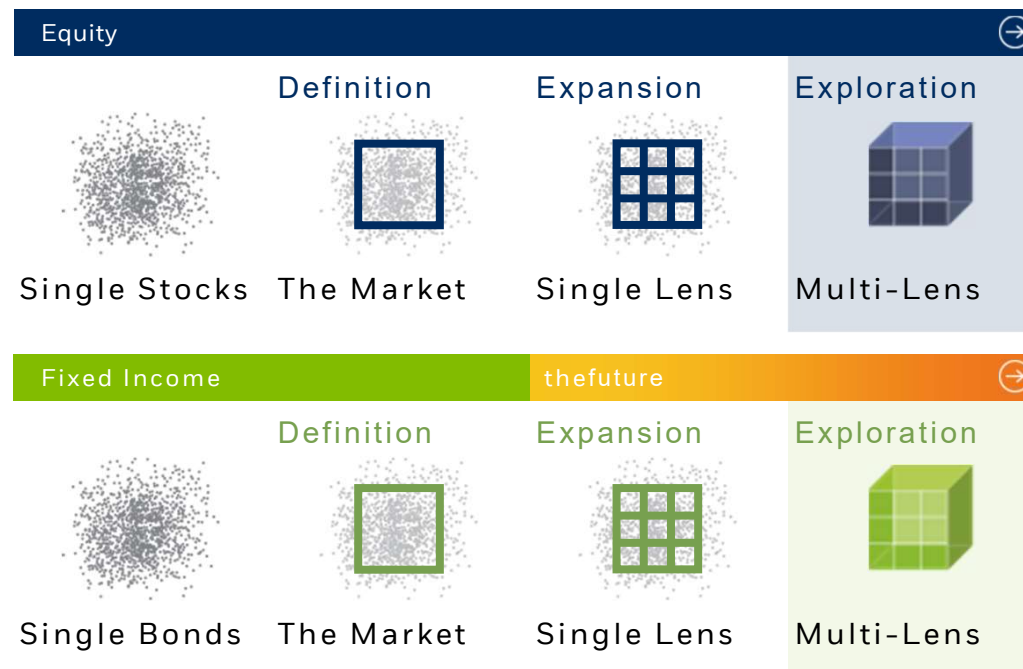
Source: BlackRock and Bloomberg as of 12/31/18.

There can be no assurance that an active trading market for shares of an ETF will develop or be maintained.

In 1519 a ship set sail...

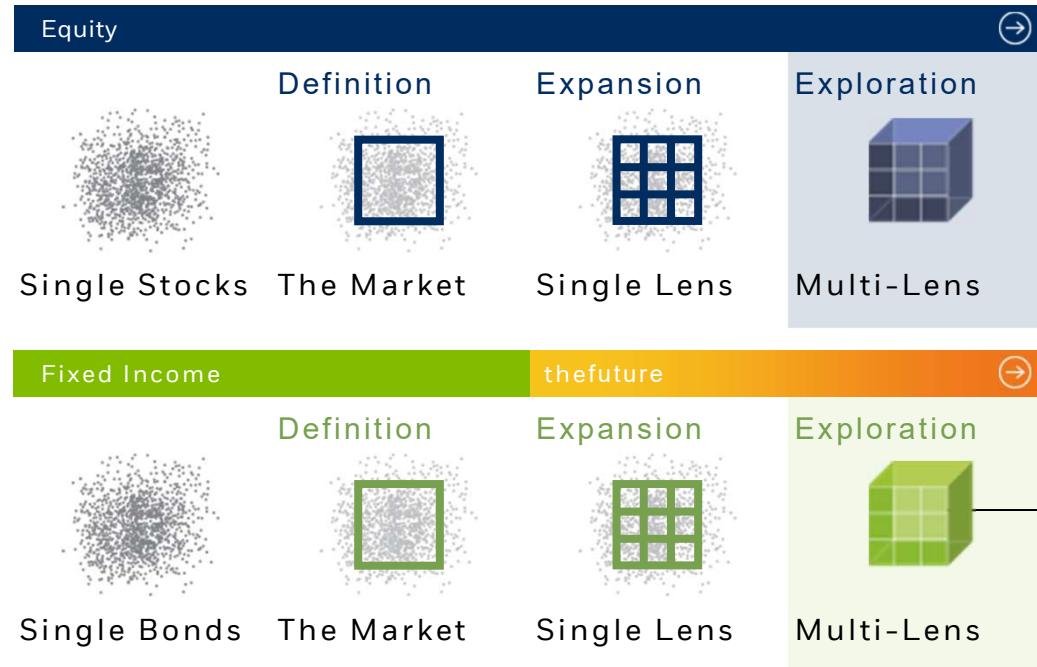


The future
of
Fixed
Income
Indexing...



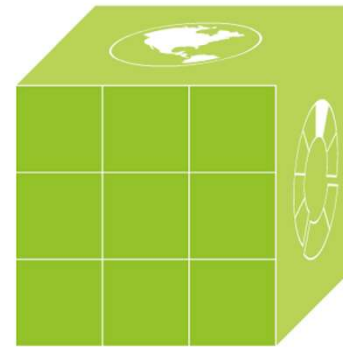
For illustrative purposes

The future of Fixed Income Indexing...

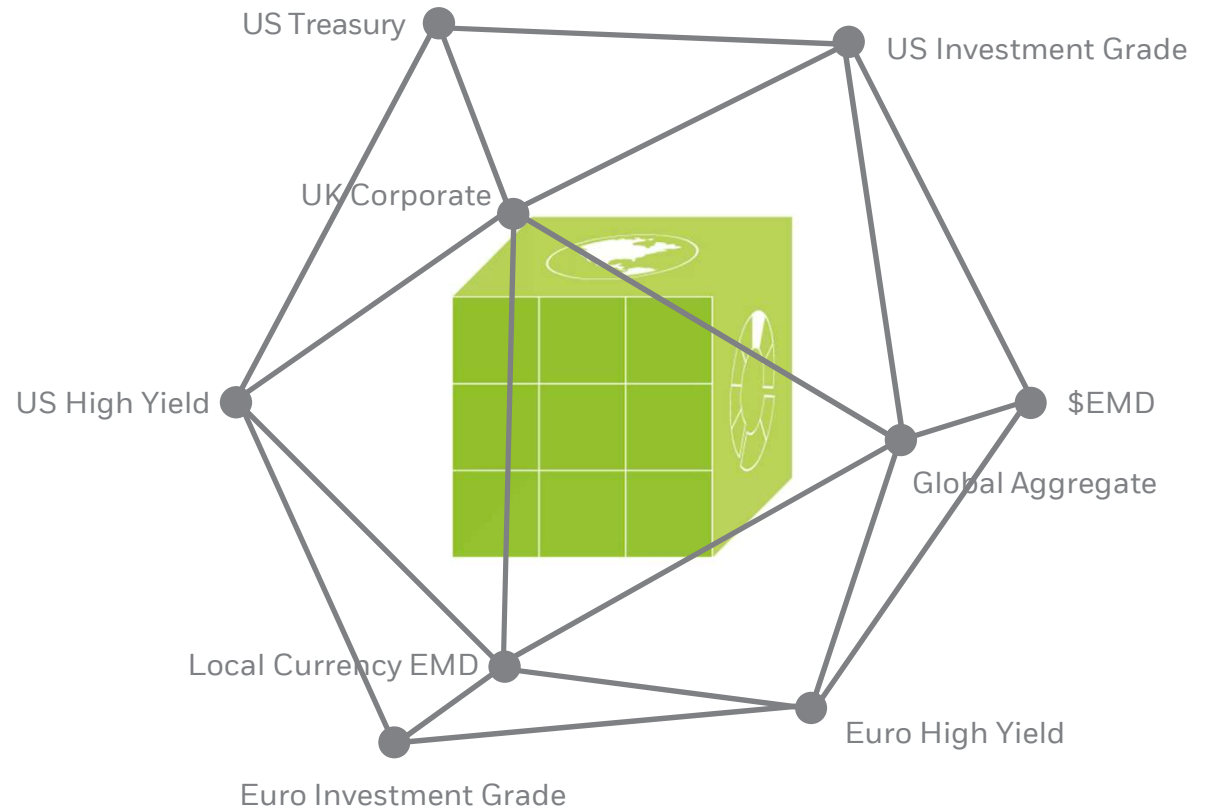


For illustrative purposes

Fixed Income - Indexing
empowers Investors



The world of
**Fixed Income
Indexing**
is multi-
dimensional and
Bond ETFs are a
simple way to
access bond
markets globally



Standardized performance

Fees as of Current Prospectus. All Other Data as of 6/30/19												
Fund Name	Fund Inception Date	Gross Expense Ratio	30-Day SEC Yield (With / Without Waiver)	Contractual Fee Waiver Expiration (If Applicable)	1-Year Returns		5-Year Returns		10-Year Returns		Since Inception	
					NAV	Mkt Price	NAV	Mkt Price	NAV	Mkt Price	NAV	Mkt Price
iShares Core U.S. Aggregate Bond ETF	9/22/2003	0.06%	2.50% / 2.49%	June 30, 2026	7.84%	7.79%	2.91%	2.91%	3.78%	3.73%	4.02%	4.01%
iShares Core Total USD Bond Market ETF	6/10/2014	0.07%	2.71% / 2.70%	February 29, 2024	8.03%	8.06%	3.13%	3.16%	--	--	3.25%	3.27%

The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting www.iShares.com or www.blackrock.com. Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. Market returns are based upon the midpoint of the bid/ask spread at 4:00 p.m. eastern time (when NAV is normally determined for most ETFs), and do not represent the returns you would receive if you traded shares at other times. Performance shown reflects fee waivers and/or expense reimbursements by the investment advisor to the fund for some or all of the periods shown. Performance would have been lower without such waivers.

*Contractual fee waivers are in effect for AGG and IUSB through 6/30/26 and 2/29/24 respectively. Net expense ratios are 0.05% and 0.06% respectively.

Important notes on iShares ETFs

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.

Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities. There may be less information on the financial condition of municipal issuers than for public corporations. The market for municipal bonds may be less liquid than for taxable bonds. Some investors may be subject to federal or state income taxes or the Alternative Minimum Tax (AMT). Capital gains distributions, if any, are taxable.

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 and in concentrations of single countries.

Investment comparisons are for illustrative purposes only. To better understand the similarities and differences between investments, including investment objectives, risks, fees and expenses, it is important to read the products' prospectuses.

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.

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.

The iShares Funds are distributed by BlackRock Investments, LLC (together with its affiliates, "BlackRock").

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