OWN THE FUTURE OF INNOVATION

Invest in iShares megatrend ETFs
Executive summary

Megatrends are the long-term trends transforming the way we live and work

• Megatrend exchange traded funds (ETFs) capture targeted groups of stocks well positioned to benefit from shifts in technology, society, the environment and demographics over time

• For all investors, megatrend ETFs are transparent and easy to own, removing the need to pick single-stock winners or have privileged access to private markets

• For advisors, megatrends can be potent conversation starters that drive engagement among clients

• Megatrend ETFs are distinct from broad market and factor exposures, and can be viewed as alternatives and/or complements to picking individual stocks or sectors
Breakthroughs in 3-D printing reduce the cost of a child’s new prosthetic arm. A life-changing road trip starts with the purr of an electric car. A novel algorithm enables our first-ever glimpse of a black hole—55 million light years away.

The modern world is changing at the speed of innovation. We feel this change, and the inexorable pull of the future, through megatrends—enduring shifts powerful enough to influence the global economy and affect corporate performance across industries.

Evidence of megatrends is all around, embodied in the products, services, and movements with profound transformative potential. Megatrend themes—robotics, genomics, clean energy, and many more—are expected to alter our personal and professional routines for decades to come. For all investors, megatrend themes offer potential long-term opportunities.

BlackRock groups megatrend themes into five categories:

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iShares ETFs access megatrends through indexes of public stocks well positioned to benefit from shifts in technology, society, the environment, and demographics over decades. The underlying indexes of iShares megatrend ETFs seek to reach across relevant industry value chains—in ways that broad indexes can’t—to more directly capture companies that can foster new paradigms. Megatrend opportunities were once available primarily to institutions with access to venture capital, private equity, and other private placements. iShares megatrend ETFs represent the next frontier of access and transparency.
Megatrends: Opportunities for long-term growth

Megatrend investing plays out over decades by capturing products, companies, and industries at the forefront of our changing world. Powerful investment trends have always existed, but global interconnectivity and rapid diffusion of information in the modern age have accelerated the innovation cycle that creates fresh opportunities. Identifying transformative investment themes offers the potential for significant long-term growth.

Megatrends used to play out over centuries. Techniques honed by Italian glassmakers in medieval times laid the groundwork for lenses. Hundreds of years later, reading glasses spread the influence of the printing press and books, which spurred scientific inquiry that required more powerful lenses for telescopes, then microscopes—technologies that continue to stretch the boundaries of human discovery in areas such as genomics and immunotherapy.¹

Today, as discoveries collide and overlap, investment opportunities can appear in quick succession. For example, medical innovations can allow people to live longer, and aging populations can demand cures for terminal diseases and products that improve the quality of life for older people. New products and services that encourage longer, healthier lives tend to cater to younger generations. This megatrend—changing demographics—represents structural change. Investment opportunities in themes such as cancer medicine and fitness are intuitive.

Innovation invariably crosses industries, often in surprising ways. Next-generation wireless technology known as 5G is expected to turbocharge the internet. Potential for transformative change stretches far beyond the wireless companies developing the infrastructure. Ultrafast mobile device connectivity currently allows homeowners to synchronize lighting, heating and air-conditioning in real time. In the years ahead, films and video games could be more immersive, and vital healthcare services including surgery could be provided remotely. The reshaping of our digital infrastructure is another structural shift, one likely to create numerous investment opportunities.

ETFs: Targeted exposure without the need to pick winners yourself

It’s difficult for financial advisors and personal

Rise of online retail
Internet & Direct Marketing Retail Index V. NASDAQ Composite (total return)

Source: Bloomberg, as of May 25, 2020. Indexes rebased to 100. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

¹ Steven Johnson, “How We Got to Now: Six innovations that made the modern world,” 2014.
investors to pick which individual companies will thrive, but it’s not as hard to pick the broad trends and themes with exponential growth potential. Index-tracking ETFs provide targeted access to megatrend themes while remaining diversified enough to reduce individual stock risk.² And, while investors should perform their own due diligence, megatrend ETFs offer investors access to investment themes that interest them without the need for a deep knowledge of industry dynamics and supply chains.

With the benefit of hindsight, the rise of e-commerce would have been an easy call to make in the early days of internet adoption. Yet the dot-com bubble of the late 1990s wiped out a host of promising e-commerce companies such as Pets.com and Boo.com that many had picked out as winners; meanwhile, Amazon.com, then a purveyor of books, grew to be one of the world’s largest companies by market value.³ Spotting the trend would have been easy. Singling out the winners proved anything but.

A diversified basket of stocks, in an ETF, can help increase the odds for success. An online retailing megatrend ETF would likely have captured Amazon as well as a more nuanced cross-section of the online retailing ecosystem—payments, warehousing and logistics—that enabled e-commerce to flourish around the world.

Parallels exist between today’s nascent market for self-driving and electric vehicles and the early internet era. The growth opportunity is clear. Two million electric vehicles were sold worldwide in 2019; that number is expected to be over 50 million by 2040.⁴ Which car-makers will dominate the market in 20 years? Few can say with confidence. And megatrend investment opportunities reach beyond car-makers. A cross-industry investment approach would include hardware companies that make road-monitoring sensors and navigation cameras; software companies that make the algorithmic “brains” required to guide vehicles from point A to B; battery producers; and auto parts manufacturers. Competition and innovation will spur new players, materials, and components for electric and self-driving cars.

Megatrend investing lets investors position themselves early to capture products, companies, and industries driving long-term change in the world.

² Diversification may not protect against market risk or loss of principal.
Indexing at the intersection of technological and societal shifts

Indexes that seek to provide exposure to megatrend themes straddle conventional classifications for a company’s sector, size, and region in an effort to better reflect the realities of innovation.

Conventional sector groups are backward-looking, and seldom change. This means that any single sector or industry within broad benchmarks such as the S&P 500 may not capture megatrend themes in a robust way. Solar power production and distribution stocks, for instance, cut across five sector groups under the popular Global Industry Classification Standard (GICS): technology, industrials, utilities, real estate, and materials. Megatrend indexes are less constrained in their inclusion criteria than traditional sectors, potentially allowing them to better keep pace with the fast-changing boundaries of the global economy.

iShares megatrend ETFs seek to track indexes that employ distinct methodologies to capture the unique businesses and value-chains associated with each megatrend theme. Some megatrend indexes rank and order stocks by market-capitalization to allow pure-play firms to exert their influence; others use an equal-weighting methodology that emphasizes newer, smaller stocks. A third approach strikes a balance between market-cap and equal-weighting.

The megatrend approach allows earlier exposure to potentially disruptive companies than conventional indexes. Years can pass before market value-weighted indexes add early-stage companies, an opportunity cost for investors who must wait for inclusion. Netflix joined the S&P 500 more than eight years after its initial public offering. Tesla, a company synonymous with the electric vehicle industry, has never joined the S&P 500 due to index criteria requiring corporate profitability. Megatrend indexes are organized around business activities, not stages of growth.

Megatrend indexes take a comprehensive, global approach versus many conventional indexes that target defined regions. Industries pioneered in developed economies often skip across borders and take root in developing economies. China’s Alibaba Group was founded less than five years after Amazon and is now one of the Top 20 global companies by market value. Other industries, such as clean energy, evolve globally. One of the largest wind turbine companies in the world is based in Denmark; one of the largest suppliers of polysilicon—the raw material used in solar cells—is based in Hong Kong. Global indexes can capture the geographic dynamism of megatrends.

Megatrends straddle conventional sector and geography classifications

How a technological breakthrough megatrend ETF crosses sectors and countries

Source: BlackRock. Based on constituents of the iShares Exponential Technologies. Index as of May 26, 2020. Subject to change.

5 Based on the MAC Global Solar Energy Stock Index (as of May 26, 2020).
6 S&P Capital IQ (as of May 2020).
7 S&P Capital IQ (as of May 2020).
Energize investors to stay invested

Intuitive megatrend strategies transcend shorter-term noise and can help keep investors in the market over the long term.

For financial advisors, megatrends can be potent conversation starters that drive engagement among investor clients. Drawing a bright line between intuitive growth stories and the real lives of investors can make investing relevant.

For all investors, thinking in terms of megatrends, and incorporating megatrend ETFs into investment portfolios, can help instill the long-term mindset necessary to seek maximal returns. Confidence in a megatrend shouldn’t be shaken by a single earnings report. Trade policy headlines likely won’t change projections that China and India will have economies nearly as large as America’s by 2030.⁸ Intuitive megatrends can help investors stay the course to pursue their financial goals.

Fitting megatrend ETFs within portfolios

Megatrend ETFs may help provide long-term returns above broad benchmark and factor exposures.

All investors have different objectives but many portfolios are built around “core,” foundational holdings of stocks or bonds, and “satellite” holdings with specific goals, such as mitigating risk, generating income, or creating “alpha”, or benchmark-beating returns.

Megatrend ETFs can be well suited as satellite holdings that have the potential to generate alpha over the long term. This means that they will have periods of ups and downs, but should be evaluated less on the day-to-day travails of the market and more on an investor’s long-term conviction.

Investors first accessed megatrend themes through individual stock selection (which requires professional expertise) and venture capital (which requires privileged access). Now, index-tracking ETFs—and some narrowly focused active strategies—provide new tools for accessing megatrends.

Megatrend ETFs can be used as alternatives for, or in tandem with, investment approaches that seek above-benchmark performance, including individual security selection, active management, and sector or country index funds used to express short-term investment views.

Megatrend ETFs are distinct from exposure to factors, though both can be thought of as long-term opportunities. Factor-based strategies draw from academic research and aim to harness historically persistent drivers of securities returns. Megatrend strategies aim to capture seemingly robust future growth trends.

⁸ International Monetary Fund, Organization for Economic Co-operation and Development, Standard Chartered Research (as of January 2019).
Visions for the future in action today

“Roads? Where we’re going, we don’t need roads.”
-Dr. Emmett Brown, “Back to the Future”

Flying cars are a staple of science fiction films, but self-driving ones are far likelier to revolutionize transport in our lifetimes. The potential is real on the streets of Phoenix and Pittsburgh, where autonomous vehicles operated by Waymo and Uber help shuttle passengers to their destinations.

Today’s nascent innovations represent the transformative investment opportunities of tomorrow. They feel intuitive because they’re part of our daily lives. They are megatrends.

Megatrend investing aims further into the future than traditional investment processes, targeting themes expected to be persistent enough to play out over decades. iShares megatrend ETFs can help provide all forward-thinking investors with access to long-term growth.

Learn more about megatrends
iShares.com/megatrends

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