



## ETF providers & capital gains

Not all ETFs are created equal

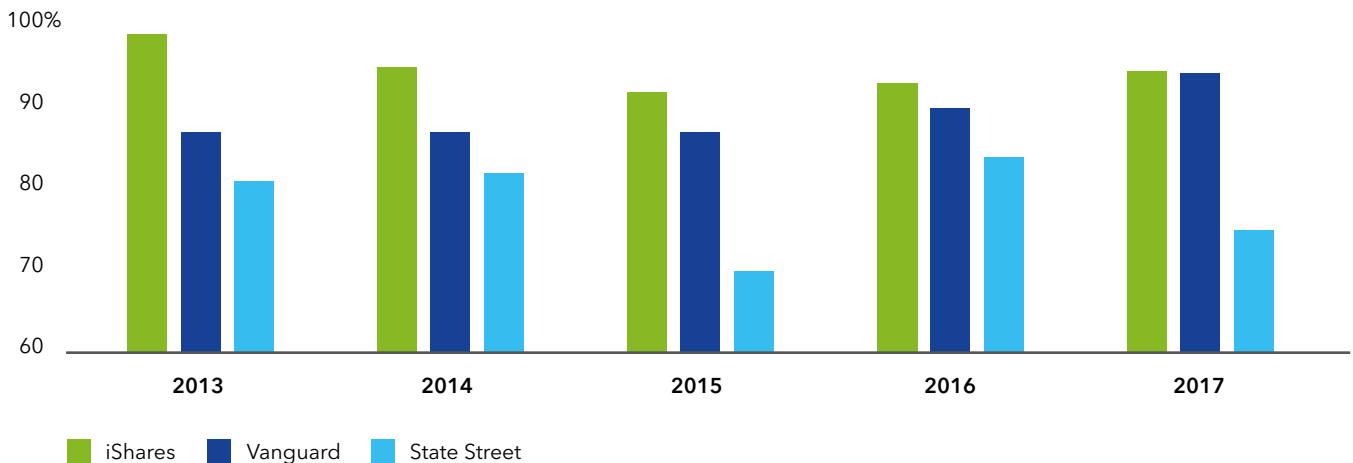
### Tax costs are an important part of total performance

For the taxable investor, capital gains represent an additional cost—not in the form of fees paid to the fund company, but in tax payments made to the IRS.

While ETFs are known for being relatively tax efficient, not all providers are the same when it comes to distributing capital gains.

### iShares delivers more ETFs capital gains free

% of overall funds not making capital gains distributions (by ETF provider 2013-2017)



		2013	2014	2015	2016	2017
<b>iShares</b>	Number of funds	298	297	323	333	347
	Funds with capital gains	4	15	25	23	19
	% of funds capital gains free	99%	95%	92%	93%	94.52%
<b>Vanguard</b>	Number of funds	67	67	68	70	70
	Funds with capital gains	9	9	9	7	4
	% of funds capital gains free	87%	87%	87%	90%	94.29%
<b>State Street</b>	Number of funds	124	144	152	154	131
	Funds with capital gains	24	26	45	25	33
	% of funds capital gains free	81%	82%	70%	84%	75%

Source: Morningstar. Number of funds includes all funds that inceptioned on or before 10/31 of each year, excluding any funds that closed on or before 10/31 of each year.

## More challenges in bond ETFs

The fixed income market, in particular, presents unique challenges when it comes to ETF tax management. Bonds approaching maturity may have to be sold at a gain to meet benchmark rules, or issuers may call their bonds and force holders to sell. Results (shown below) accentuate the impact that effective tax management can have in fixed income.

### Bond ETF capital gains distributions 2013-2017, by ETF provider

		2013	2014	2015	2016	2017
<b>iShares</b>	Number of funds	63	72	83	80	88
	Funds with capital gains	3	6	3	7	5
	% of funds capital gains free	95%	92%	96%	91%	94%
<b>Vanguard</b>	Number of funds	15	15	16	16	16
	Funds with capital gains	9	9	9	7	4
	% of funds capital gains free	40%	40%	44%	56%	75%
<b>State Street</b>	Number of funds	32	34	34	32	31
	Funds with capital gains	11	6	9	9	2
	% of funds capital gains free	66%	82%	74%	72%	94%

Source: Morningstar. Number of funds includes all funds that incepted on or before 10/31 of each year, excluding any funds that closed on or before 10/31 of each year.

## Capital gains triggers

ETF sponsors must build and manage a fund effectively to achieve tax efficiency. Among other factors, they may consider:

<b>Structure (cash or in-kind)</b>	Because cash transactions (exchanging cash for securities and vice versa) are considered taxable events, ETFs that transact in cash generally are subject to increased instances of realized gains. ETFs that exchange securities for securities (or transact in-kind) generally have fewer instances of realized gains.	<b>Corporate actions</b>	The terms of a merger, acquisition or tender offer can have tax implications.
<b>Portfolio concentration</b>	Managers may have to sell assets to comply with diversification requirements.	<b>Index rebalances and reconstitutions</b>	Rebalancing activity and index changes can cause forced selling and inopportune trades from a tax perspective.
<b>High turnover</b>	Funds that frequently buy and sell holdings are generally more susceptible to realizing gains.	<b>Tax lot management</b>	ETF providers may manage tax lots (several securities bought on a certain date at a certain price) to minimize capital gains. Managers may retain high cost basis positions and flush out low cost basis positions to minimize tax consequences.

Carefully consider the iShares 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 prospectus which may be obtained or 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.

This material is provided for educational purposes only and does not constitute investment advice. The information contained herein is based on current tax laws, which may change in the future. BlackRock cannot be held responsible for any direct or incidental loss resulting from applying any of the information provided in this publication or from any other source mentioned. The information provided in this material does not constitute any specific legal, tax or accounting advice. Please consult with qualified professionals for this type of advice.

Dedicated share class ETFs are stand-alone products made up of a portfolio of securities and fund expenses are therefore distributed pro rata across all ETF shareholders. Shareholders are insulated from the transaction costs and capital gains created by other shareholders. Multi-share class ETFs are a distinct share class of an existing mutual fund and are a share of an investment pool invested in a portfolio of securities. ETF shareholders pay for costs incurred by other share classes.

ETF shareholders may receive capital gains distributions created by transactions of mutual fund shareholders.

Information on State Street and Vanguard Funds is provided strictly for illustrative purposes and should not be deemed an offer to sell or a solicitation of an offer to buy shares of any funds other than the iShares Funds, that are described in this material.

All registered investment companies, including iShares Funds, are obliged to distribute portfolio gains to shareholders by year-end. These gains may be generated due to index rebalancing or to meet diversification requirements. Trading shares of the iShares Funds will also generate tax consequences and transaction expenses.

To receive a distribution, you must be a registered shareholder of the fund on the record date. Distributions are paid to shareholders on the payment date. Past distributions are not indicative of future distributions.

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

©2018 BlackRock. All rights reserved. **iSHARES** and **BLACKROCK** are registered trademarks of BlackRock.

All other marks are the property of their respective owners.

Lit. No. ISH-ETFCAPGAINS-0618

111969 / 0618

**BLACKROCK**<sup>®</sup>

ICR0618U-527980-1657156