Understanding iShares ETF Dividend Distributions

iShares ETFs that are registered under the Investment Company Act of 1940 ('40 Act ETFs) are Regulated Investment Companies (RICs), and are subject to certain distribution requirements to maintain RIC status. RICs are subject to the same tax provisions that apply to corporations, except RICs are entitled to a deduction for dividends paid which allows the RICs' income to avoid double taxation.

In order to maintain RIC Qualification, '40 Act ETFs are required to meet quarterly asset diversification requirements, meet a qualifying income test, elect to be taxed as RICs and distribute at least 90% of their investment company taxable income (ICTI) and net tax-exempt income for the taxable year. Any undistributed income is taxed at regular corporate rates.

- Taxable ordinary income includes net investment income and short-term capital gains
- A dividends paid deduction is allowed up to the amount of taxable ordinary income earned
- Any undistributed income is taxed at regular corporate rates
- Net long-term gains are not required to be distributed, however, undistributed amounts are subject to tax at the regular corporate rates

RICs can elect to distribute undistributed income by the end of the next taxable year to avoid tax implications. iShares Fund Admin seeks to manage the distribution rates so that rates remain consistent (smooth) month to month, to help reduce potential for return of capital and maintain an appropriate distribution yield. Below are general factors that may affect a fund's distribution rate.

- Fixed Income:
  - Change in the net income, calculated daily. (Net income includes securities lending income and fund expenses)
  - Actual net income that remains undistributed in the fund
  - Income as a result of TBAs rolling monthly
  - Gain/Loss from paydown or payup resulting from holding ABS
  - Income (loss) as a result of holding inflationary linked securities
  - Bifurcation and currency transactions
- Equity:
  - Change in the net income, calculated daily. (Net income includes securities lending income and fund expenses)
  - Actual net income that remains undistributed in the fund
  - Corporate actions resulting in a taxable event

Moreover, RICs are also subject to excise tax rules which are separate from regular income tax requirements. Most funds make distributions in December to avoid excise tax (unless they do not have undistributed income or capital gains). In order to avoid a 4% excise tax on undistributed income, a RIC must distribute the following before the end of the calendar year:

- 98% of ordinary income earned during the calendar year
- 98.2% of net capital gains earned during the 12-month period ended October 31

Therefore, December distributions can be inconsistent with standard monthly distributions as the determination of calendar year income prior to completion of the calendar year is difficult to estimate. A second distribution will be made during the month of December if actual income is materially different from estimated amounts. December distributions are driven by tax to ensure no over/under distributions take place that could put the fund in a harmful tax position.

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.

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.

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