Fixed income ETFs:

New asset class, same benefits

This guide takes a deeper look at fixed income ETFs and highlights three ideas to help you get started.

1

Diversify with a low cost core ETF

2

Put cash to work

3

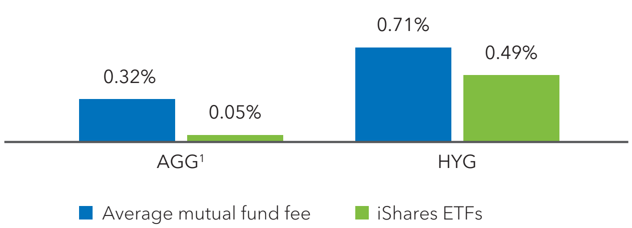
Seek increased income

Exchange Traded Funds ("ETFs") first appealed to equity investors, providing efficient access to the world's stock markets – and they have revolutionized equity markets, growing to over $3 trillion in assets and now constituting 30% of U.S. stock market trading volume.*

ETFs are now transforming bond markets. Fixed income is the fastest growing ETF segment, with assets quadrupling since 2008.* Why the sudden growth? Investors increasingly recognize that the benefits of ETFs–competitive performance, low cost and tax efficiency – apply to fixed income just as they do to equities.

As investors recognize the key benefits of ETFs apply to fixed income just like they do to equities....

Low cost†



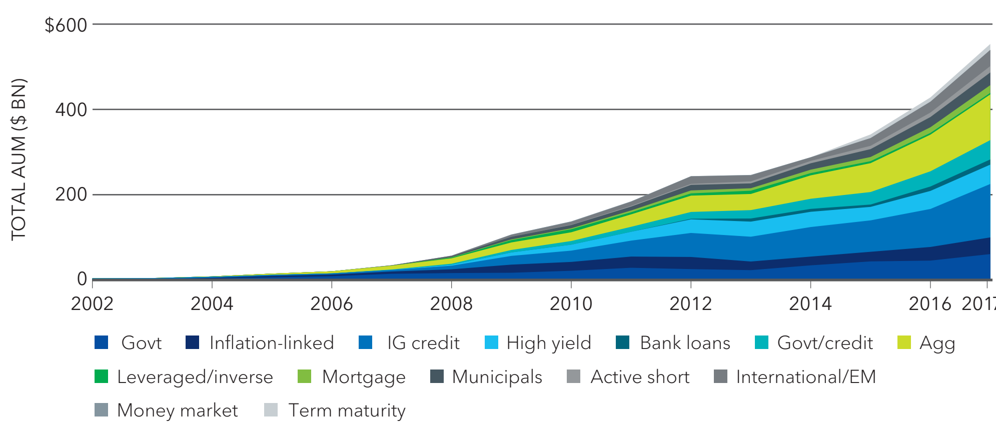
Tax efficient†

12% of fixed income mutual funds paid capital gains in 2017

5% of fixed income iShares ETFs paid capital gains in 2017

...fixed income is now the fastest growing ETF category

Total assets in U.S. fixed income ETFs



*Sources: BlackRock, Bloomberg as of 12/31/17.

†Source: BlackRock, Bloomberg and Morningstar Direct as of 12/31/17. Average mutual fund relative to AGG's net expense ratio is represented by the average of U.S. Intermediate Bond Fund category as constituted by Morningstar. Average mutual fund relative to HYG is represented by the average of U.S. High Yield Bond Fund category as constituted by Morningstar. 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. Past distributions are not indicative of future distributions.

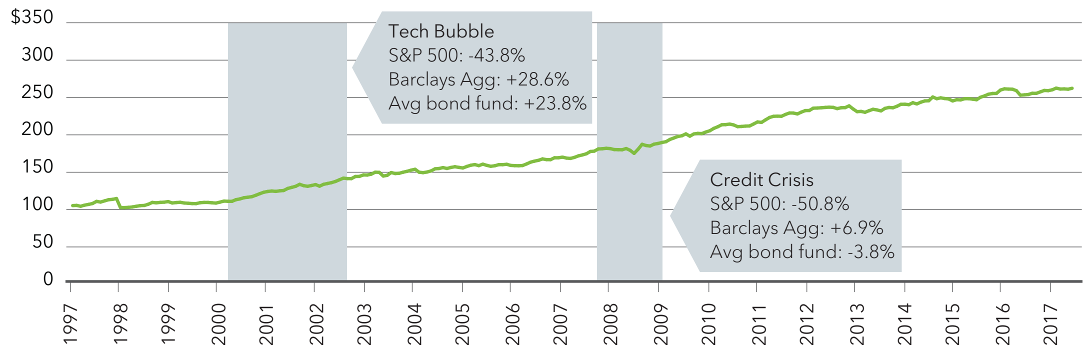
1 Diversify with a low cost core ETF

With the stock market near record highs and memories of the 2008 crisis still fresh, many investors are concerned about increased volatility.

Investors looking for potential protection against stock market volatility while also seeking attractive total return can consider iShares Core U.S. Aggregate Bond ETF (AGG). As shown in the figure below, AGG has historically offered diversification against equities when investors needed it most.

Long-term growth with protection during past stock market sell-offs

Growth of a $100 hypothetical investment in the Bloomberg Barclays U.S. Aggregate bond index

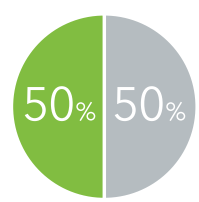


Source: S&P, Barclays, Bloomberg and Blackrock as of 12/31/17. Diversification and asset allocation may not protect against market risk or loss of principal. **Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. Index returns do not represent actual iShares Fund performance.** For actual fund performance, please visit www.iShares.com or www.blackrock.com. "Tech Bubble" is reflected as period from April 2000 - September 2002. "Credit Crisis" is reflected as period from October 2007 - February 2009. Average bond fund is median performing mutual fund in the U.S. Intermediate Bond Fund category as constituted by Morningstar.

Getting started

Pair AGG with your favorite active bond fund

AGG
- Low expenses
- Diversifies equities



Actively managed bond fund
- Room to roam
- Seeks excess returns

AGG	iShares Core U.S. Aggregate Bond ETF Expense Ratio: 0.05%[1]	AGG seeks to track the investment results of the Barclays U.S. Aggregate Bond Index, a leading benchmark for fixed income investors.
IUSB	iShares Core Total USD Bond Market ETF Expense Ratio: 0.06%[2]	IUSB seeks to deliver an even broader fixed income exposure than AGG, with additional allocations to high yield corporate credit and emerging market bonds.
LQD	iShares iBoxx $ Investment Grade Corporate Bond ETF Expense Ratio: 0.15%	LQD seeks to deliver exposure to 1,000+ high quality, U.S. dollar-denominated corporate bonds in a single fund.
MUB	iShares National Muni Bond ETF Expense Ratio: 0.07%	MUB seeks to track an index composed of investment-grade U.S. municipal bonds and can be used to pursue tax-exempt income.

Learn more about the complete suite of iShares Core Bond ETFs at **iShares.com/core**

2 Put cash to work

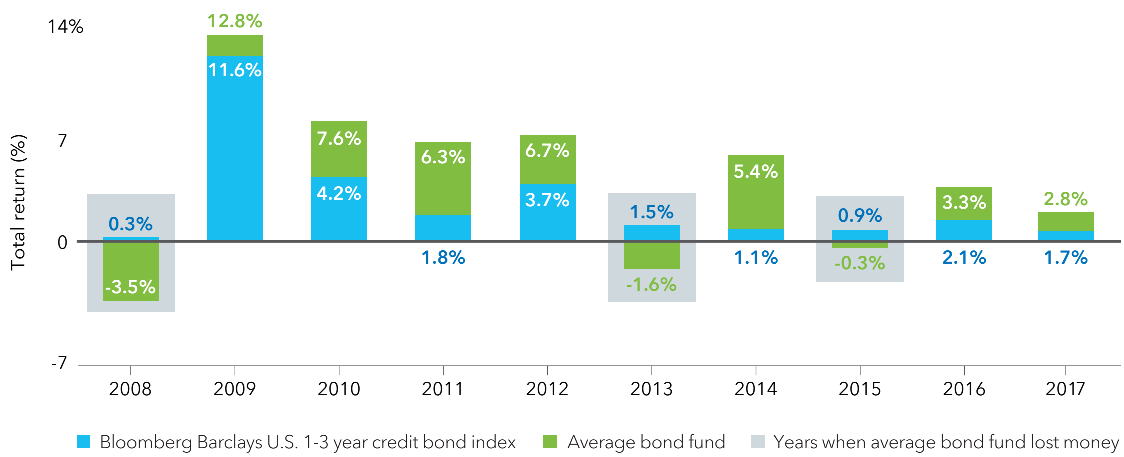
Interest rates have remained low for many years as the U.S. Federal Reserve implemented quantitative easing to help nurse back the U.S. economy from the 2008 crisis. But these historically low rates cannot last forever—and many investors are sitting on cash, afraid that rising rates might reduce the value of their bond portfolios.

Investors seeking to put cash to work while protecting against rising rates may consider these options:

- **Shorten duration.** Shortening the overall duration of your bond portfolio can potentially help manage losses.
- **Focus on credit.** Short term corporate bonds have generally delivered additional yield over Treasuries of similar maturities. Additionally, as the figure below demonstrates, they have provided positive returns in environments where average bond funds have suffered.

1-3 year credit: positive returns even when bond funds have suffered

Index total returns vs. Average bond fund



Source: Morningstar, Bloomberg and Blackrock as of 12/31/17. **Index returns are for illustrative purposes only. Index performance returns do 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. Index returns do not represent actual iShares Fund performance.** For actual fund performance, please visit www.iShares.com or www.blackrock.com. Average bond fund represented by median return for the Intermediate Term Bond category from Morningstar.

Reposition your bond portfolio for rising rates

NEAR	iShares Short Maturity Bond ETF Expense Ratio: 0.25%	NEAR is an actively managed ETF that seeks to maximize current income through diversified exposure to short term bonds.
FLOT	iShares Floating Rate Bond ETF Expense Ratio: 0.20%	FLOT provides exposure to U.S. floating rate bonds with remaining maturities less than 5 years and whose interest payments adjust as interest rates rise.
IGSB	iShares Short-Term Corporate Bond ETF Expense Ratio: 0.06%	IGSB allocates to 1-5 year bonds within the U.S. investment grade corporate market.

3

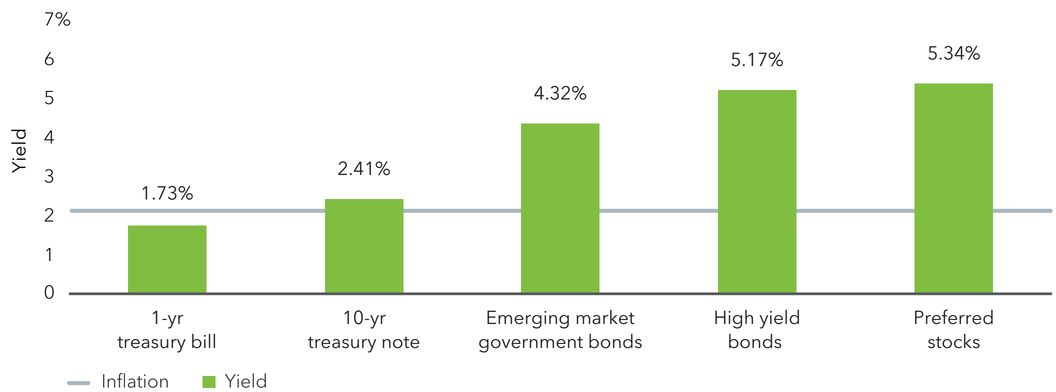
Seek increased income

Today's low yield environment is remarkable for its depth and its breadth – not only are interest rates near record lows, but they are widespread across the landscape. So traditional means of finding higher income – such as moving from Treasuries to investment grade corporate bonds – may not meet the income needs of investors.

Fixed income investors with greater risk tolerance might consider the iShares iBoxx $ High Yield Corporate Bond ETF (HYG) or the iShares J.P. Morgan USD Emerging Markets Bond ETF.

Investors willing to expand beyond bonds in the search for income might consider preferred stocks through the iShares U.S. Preferred Stock ETF (PFF), which holds hybrid securities sharing attributes of both fixed income and equities. Similar to high yield bonds, preferred stocks can provide attractive income potential, but typically have higher correlations to equities and have concentrated exposure to the financials sector.

Broaden your income universe to complement core bonds



Source: Bloomberg, BlackRock as of 12/31/17. Preferred stocks reflected by the S&P U.S. Preferred Stock Index and reflects index dividend yield; Emerging market government bonds reflected by the J.P. Morgan EMBI Global Core Index; High Yield Bonds reflected by the Markit iBoxx USD Liquid High Yield Index. Bond yields are reflected by index yield to maturity. Inflation is defined as U.S. CPI Urban Consumer Less Food & Energy YoY NSA as of December 2017. **Index returns are for illustrative purposes only. Index performance returns do 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. Index returns do not represent actual iShares Fund performance.** For actual fund performance, please visit www.iShares.com or www.blackrock.com.

4 ways to seek higher income

HYG	iShares iBoxx $ High Yield Corporate Bond ETF Expense Ratio: 0.49%	HYG provides investors access to a full range of corporate bonds in the U.S. high yield market.
SHYG	iShares 0-5 Year High Yield Corporate Bond ETF Expense ratio: 0.30%	SHYG delivers exposure to short-term U.S. high yield corporate bonds.
EMB	iShares J.P. Morgan USD Emerging Markets Bond ETF Expense Ratio: 0.40%	EMB provides investors access to U.S. dollar-denominated government bonds from over 30 emerging market countries.
PFF	iShares U.S. Preferred Stock ETF Expense Ratio: 0.47%	PFF offers exposure to U.S. preferred stocks, which have characteristics of bonds (pay a fixed dividend) and stocks (represent ownership in a company).

Learn more about the complete suite of iShares High-Yield ETFs at
iShares.com/us/strategies/find-income-with-bond-etfs

Why BlackRock for fixed income?

iShares pioneered fixed income ETFs, introducing the first fund in 2002 – LQD, the iShares iBoxx $ Investment Grade Corporate Bond ETF, which has since grown to over $33B. iShares continues to innovate the fixed income ETF landscape, offering a comprehensive suite of funds to provide investors the income, quality and maturity exposures they seek.

Leader

- With 88 fixed income ETFs, iShares offers the widest range of products in the U.S.–from low cost, core holdings to targeted exposures
- iShares is trusted with more than $279.1 billion in U.S. fixed income ETF assets–more than any other ETF provider

Expert

- iShares utilizes its proprietary Aladdin® platform to drive risk, return and cost evaluations
- iShares leverages BlackRock's global scale in fixed income, $1.86 trillion* in fixed income assets

Partner

- Strive to deliver the outcomes investors need with low cost and transparency
- Provide resources to help investors integrate fixed income iShares ETFs into portfolios

*Source: BlackRock as of 6/30/2018.

iShares index funds & active mutual funds: key differences

Criteria	iShares Index ETFs	Active Mutual Funds
Performance goal	Track a benchmark	Outperform a benchmark
Management	Passive	Active
Performance risks	• Performance may differ from benchmark • Holdings not altered during rising/falling markets	• 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, brokerage commissions	End-of-day NAV, less fees
Fees	Expense ratio	Expense ratio
Tax impact of buyers/sellers	Shareholders only impacted by their own action	Shareholders may be impacted by all other shareholders' actions
Holdings disclosure	Daily	Typically quarterly

Want to know more?

iShares.com 1-800-474-2737

1 Net expense ratio shown. The gross expense ratio is 0.06% for AGG. BlackRock Fund Advisors ("BFA"), the investment adviser to the Fund and an affiliate of BlackRock Investments, LLC, has contractually agreed to waive a portion of its management fees through June 30, 2026. Please see the Fund's prospectus for additional details. **2** Net expense ratio shown. The gross expense ratio is 0.07% for IUSB. BlackRock Fund Advisors ("BFA"), the investment adviser to the Fund and an affiliate of BlackRock Investments, LLC, has contractually agreed to waive a portion of its management fees through February 29, 2024. Please see the Fund's prospectus for additional details.

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