

# 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

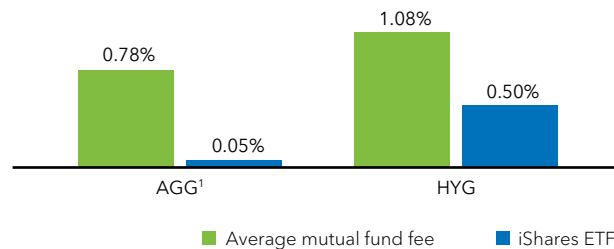
Seek increased income

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\*

32%

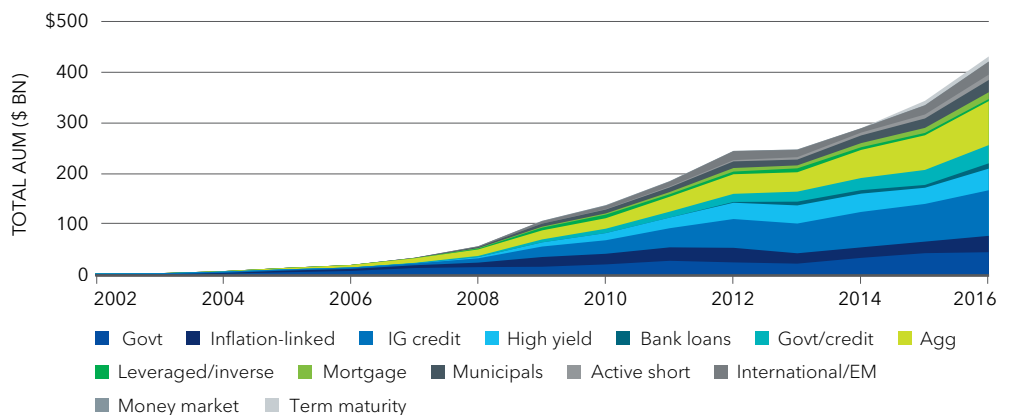
of fixed income mutual funds paid capital gains in 2016

4%

of fixed income iShares ETFs paid capital gains in 2016

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

Total assets in fixed income ETFs



Sources: BlackRock, Bloomberg as of 3/31/17.

\*Source: BlackRock, Bloomberg and Morningstar Direct as of 3/31/17. Average mutual fund relative AGG’s net expense ratio is represented by the average of US Intermediate Bond Fund category as constituted by Morningstar. Average mutual fund relative to HYG is represented by the average of US High Yield Bond Fund category as constituted by Morningstar.

# 1

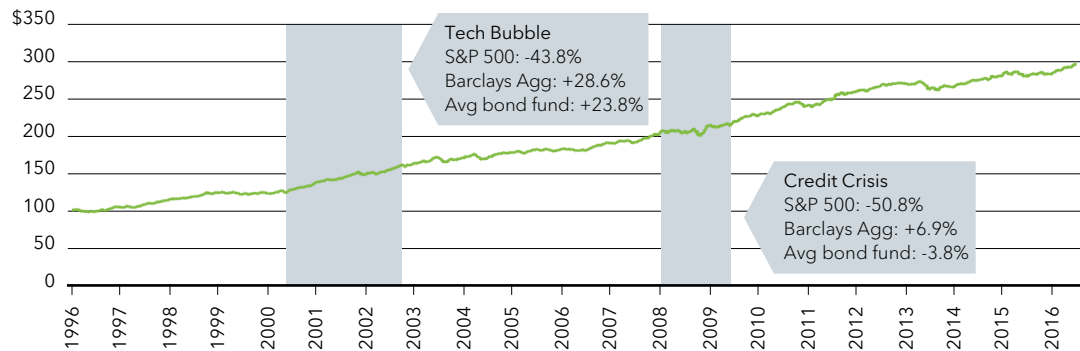
## Diversify with a low cost core ETF

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



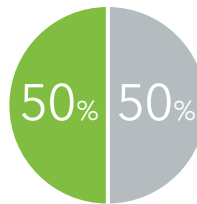
Source: S&P, Barclays, Bloomberg and Blackrock as of 12/31/16. Diversification and asset allocation may not protect against market risk or loss of principal. Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. 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](http://www.iShares.com) or [www.blackrock.com](http://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 US 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

<b>AGG</b>	<b>iShares Core U.S. Aggregate Bond ETF</b> Expense Ratio: 0.05% <sup>1</sup>	AGG seeks to track the investment results of the Barclays U.S. Aggregate Bond Index, a leading benchmark for fixed income investors.
<b>IUSB</b>	<b>iShares Core Total USD Bond Market ETF</b> Expense Ratio: 0.06% <sup>2</sup>	IUSB seeks to deliver an even broader fixed income exposure than AGG, with additional allocations to high yield corporate credit and emerging market bonds.
<b>LQD</b>	<b>iShares iBoxx \$ Investment Grade Corporate Bond ETF</b> Expense Ratio: 0.15%	LQD seeks to deliver exposure to 1,000+ high quality, U.S. dollar-denominated corporate bonds in a single fund.
<b>MUB</b>	<b>iShares National Muni Bond ETF</b> Expense Ratio: 0.25%	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](http://iShares.com/core)

# 2

## Put cash to work

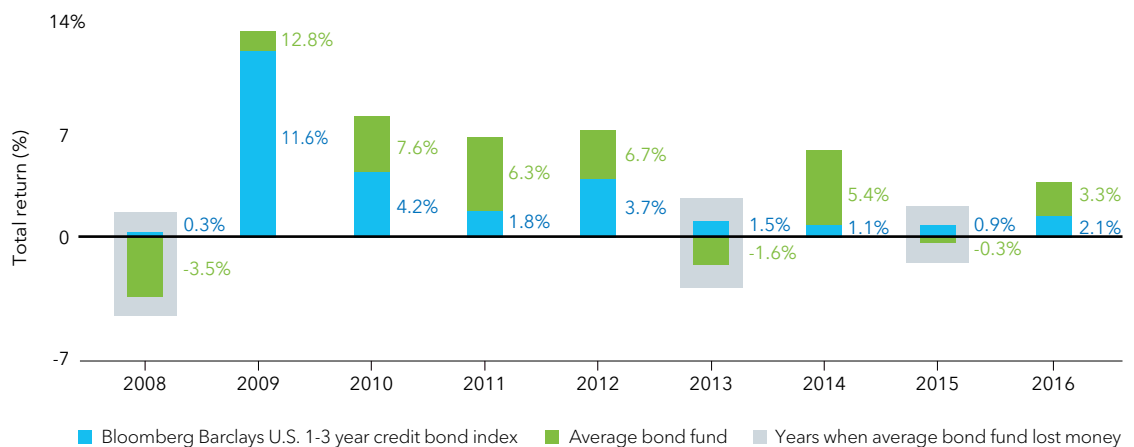
Interest rates have remained low for many years as the U.S. Federal Reserve implemented quantitative easing to help nurse back the U.S. economy from the 2008 crisis. But these historically low rates cannot last forever—and many investors are sitting on cash, afraid that rising rates might reduce the 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 12/31/16. 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](http://www.iShares.com) or [www.blackrock.com](http://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

<b>NEAR</b>	<b>iShares Short Maturity Bond ETF</b> Expense Ratio: 0.25%	NEAR is an actively managed ETF that seeks to maximize current income through diversified exposure to short term bonds.
<b>FLOT</b>	<b>iShares Floating Rate Bond ETF</b> 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.
<b>CSJ</b>	<b>iShares 1-3 Year Credit Bond ETF</b> Expense Ratio: 0.20%	CSJ allocates to 1-3 year bonds within the U.S. investment grade corporate market.

Learn more about the complete suite of iShares Rising Rate Solutions at [iShares.com/us/strategies/rising-rates](http://iShares.com/us/strategies/rising-rates)

# 3

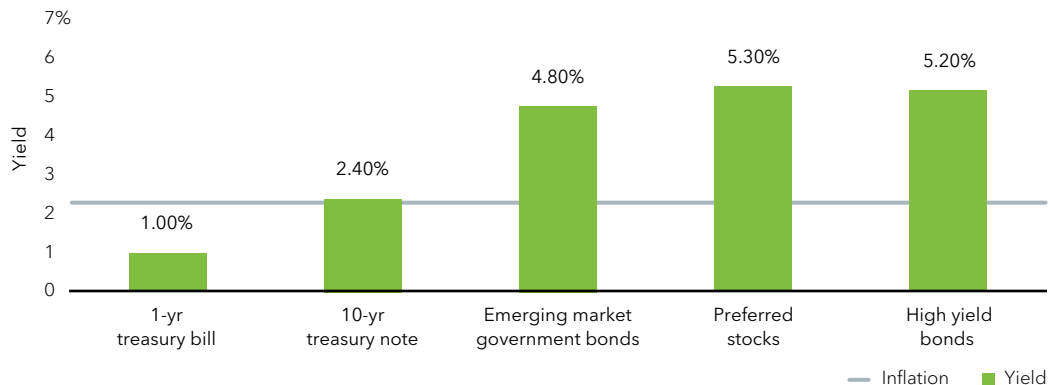
## Seek increased income

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 3/31/17. 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 US CPI Urban Consumer Less Food & Energy YoY NSA as of December 2016. **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](http://www.iShares.com) or [www.blackrock.com](http://www.blackrock.com).

### 4 ways to seek higher income

<b>HYG</b>	<b>iShares iBoxx \$ High Yield Corporate Bond ETF</b> Expense Ratio: 0.49%	HYG provides investors access to a full range of corporate bonds in the U.S. high yield market.
<b>SHYG</b>	<b>iShares 0-5 Year High Yield Corporate Bond ETF</b> Expense ratio: 0.30%	SHYG delivers exposure to short-term U.S. high yield corporate bonds.
<b>EMB</b>	<b>iShares J.P. Morgan USD Emerging Markets Bond ETF</b> Expense Ratio: 0.39%	EMB provides investors access to U.S. dollar-denominated government bonds from over 30 emerging market countries.
<b>PFF</b>	<b>iShares U.S. Preferred Stock ETF</b> 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](http://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 \$25B. 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 over 75 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 \$230 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, with over \$1.70 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 06/30/17.

**Bringing it all together with BlackRock Model Portfolios**

Visit [blackrock.com/models](https://blackrock.com/models) or talk to your financial advisor to get started.

## 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	<ul style="list-style-type: none"> <li>• Performance may differ from benchmark</li> <li>• Holdings not altered during rising/falling markets</li> </ul>	<ul style="list-style-type: none"> <li>• May not meet performance goal</li> <li>• May underperform due to manager's holdings selection</li> </ul>
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 28, 2024. Please see the Fund's prospectus for additional details.

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](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.

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.

Securities with floating or variable interest rates may decline in value if their coupon rates do not keep pace with comparable market interest rates. The Fund's income may decline when interest rates fall because most of the debt instruments held by the Fund will have floating or variable rates.

Preferred stocks are not necessarily correlated with securities markets generally. Rising interest rates may cause the value of the Fund's investments to decline significantly. Removal of stocks from the index due to maturity, redemption, call features or conversion may cause a decrease in the yield of the index and the Fund.

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.

Actively managed funds do not seek to replicate the performance of a specified index. Actively managed funds may have higher portfolio turnover than index funds.

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. Diversification and asset allocation may not protect against market risk or loss of principal.

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