

# FIBR

## Seek to boost yield with less interest rate risk

With fixed income yields at all-time lows, many investors are taking on a significant levels of interest rate risk to generate meager amounts of income.

The Bloomberg Barclays U.S. Aggregate Bond Index, while made up of 10,000+ investment grade bonds from many different sectors, actually derives 80-90% of its risk from interest rates.<sup>1</sup>

### Putting factors to work

Through a factor perspective, it's possible to go beyond market cap-weighted portfolio construction in an effort to overcome some of the shortcomings of broad bond market indices.

The **iShares U.S. Fixed Income Balanced Risk Factor ETF (FIBR)** may provide better income potential with lower duration than a typical broad bond portfolio by seeking a better balance between interest rate risk and credit risk.

**FIBR**  
0.25%

**iShares U.S. Fixed Income  
Balanced Risk Factor ETF**  
Expense ratio

**Objective:** Track an index that targets an equal allocation between interest rate and credit spread risk

**Inception:** 02/24/2015

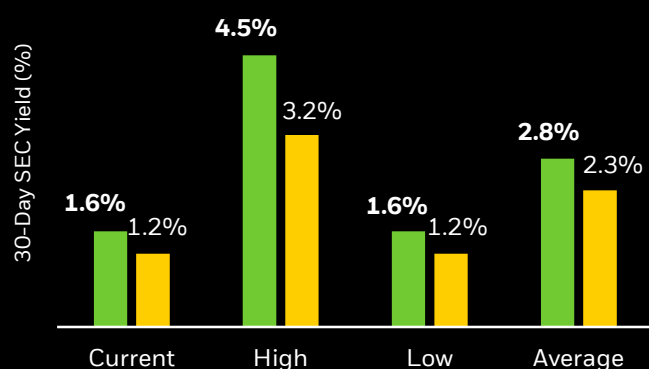
**30-Day SEC Yield:** 1.58%

**Eff. Duration:** 4.24 yrs

All above data as of 09/30/2020.

### FIBR has out-yielded AGG...

5-Year yield history



**iShares U.S. Fixed Income Balanced Risk Factor ETF (FIBR)**

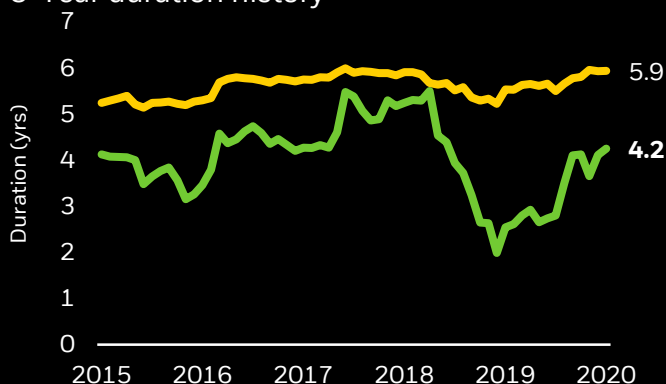
**iShares Core U.S. Aggregate Bond ETF (AGG)**

Source: BlackRock. 30-Day SEC Yields correspond to the following time periods: Current as of 09/30/2020, High as of 12/31/2018, Low as of 09/30/2020, and Average is the average level from Fund inception on 02/24/2015 to 09/30/2020. Duration as of 09/30/2020, and is a measure of a bond fund's sensitivity to interest rates. For every year of duration, a 1% change in interest rates will lead to a 1% change in the opposite direction of a bond fund's value.

**Performance data represents past performance and does not guarantee future results. Investment return and principal value will fluctuate with market conditions and may be lower or higher when you sell your shares. Current performance may differ from the performance shown. For most recent month-end performance, see [www.iShares.com](http://www.iShares.com). For standardized fund performance, see the end of this document.**

### ...With less interest rate risk

5-Year duration history



<sup>1</sup> Source: BlackRock Solutions. Using monthly index data between 1989-2019, interest rate risk was ~90% of the Bloomberg Barclays U.S. Aggregate Bond Index's total risk.

## FIBR's index in action

FIBR's index is fundamentally different than market-cap weighted indices—its unique approach is designed to **allocate risk instead of capital**.

The index seeks an even split between two well-known fixed income drivers of return—**interest rate risk** and **credit risk**. These return drivers have historically been negatively correlated to each other<sup>2</sup>, making them essential building blocks for creating diversified bond portfolios.

FIBR seeks to track the Bloomberg Barclays U.S. Fixed Income Balanced Risk Index which uses the following portfolio construction methodology:

1. **Target equal interest rate & credit risk** – The index targets equal exposure to interest rate and credit risk based on trailing 24-month return volatility.
2. **Diversify credit risk** – The index diversifies credit risk by allocating to sectors with the highest historical risk-adjusted returns.
3. **Apply hedge to balance** – The index measures the resulting risk and applies an interest rate hedge to balance credit and interest rate risk.

### The result?

FIBR's index methodology results in a diversified portfolio of U.S. bonds that has the potential to deliver higher income with lower duration than the Bloomberg Barclays U.S. Aggregate Bond Index.

## What drives bond returns?



### Interest Rate Risk

- Risk that bond prices fluctuate based on movements in interest rates.
- Has tended to drive returns of higher quality bonds.
- Exposure to this risk may potentially diversify against equity market selloffs.



### Credit Risk

- Risk that bond prices fluctuate based on perceived default risk of the issuer.
- Has tended to dominate returns in riskier bonds.
- Exposure to this risk may potentially boost income and total return potential.

## Index target portfolio construction

### FIBR's index seeks to allocate risk NOT capital

#### 1 Target equal interest rate & credit risk

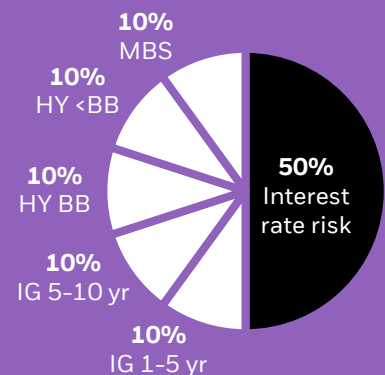


#### 2 Diversify credit risk

MBS
HY <BB
HY BB
IG 5-10 yr
IG 1-5 yr



#### 3 Apply hedge to balance



Source: Bloomberg Barclays Indices, as of 9/30/20. Subject to change.

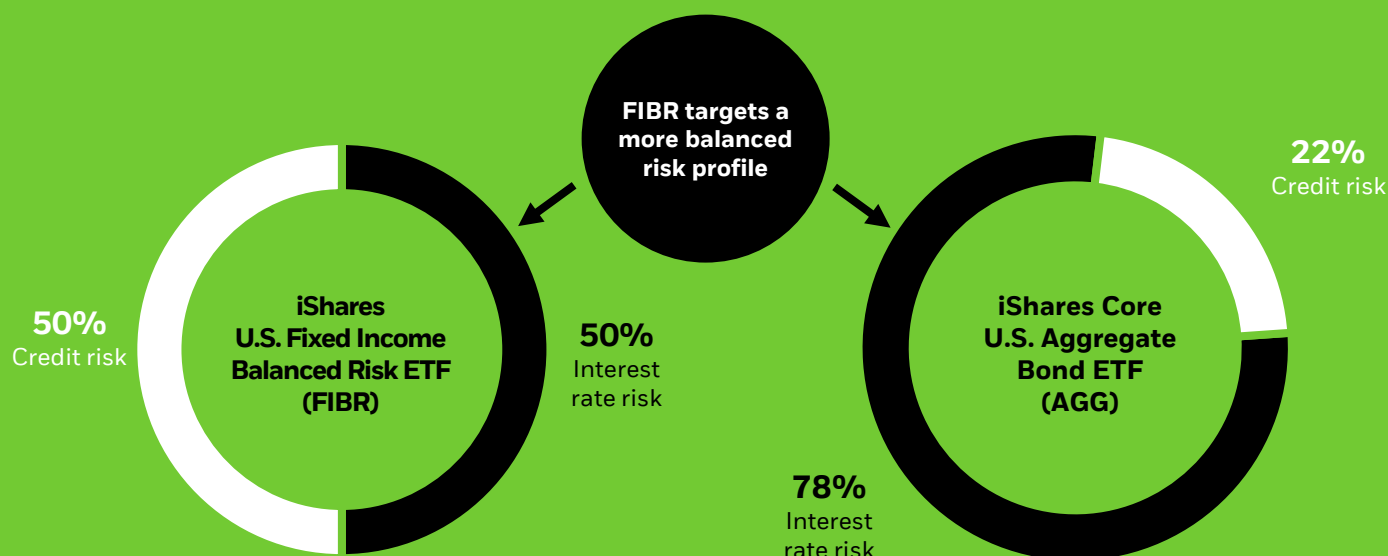
<sup>2</sup> Source: BlackRock Solutions. The average correlation between interest rate risk and credit risk was -0.30, based on monthly data using the Bloomberg Barclays U.S. Aggregate Bond Index between 1989-2019.

# Comparing FIBR to traditional broad bond exposures

One of the major roles that bonds play in a portfolio is to diversify equity risk. The **iShares Core U.S. Aggregate Bond ETF (AGG)**, which tracks the Bloomberg Barclays U.S. Aggregate Bond Index, is a popular choice because of its low correlation to equities.

While duration is an important component to a portfolio, high levels of duration can lead to increased sensitivity to changes in interest rates and may forgo the income potential that credit exposure may afford. For investors looking to reduce interest rate sensitivity and boost yield, FIBR may act as an effective complement to traditional market cap-weighted holdings such as the Bloomberg Barclays U.S. Aggregate Bond Index.

## Portfolio risk comparison of FIBR and AGG



FIBR		AGG
1.58%	30-Day SEC Yield	1.21%
4.25 years	Effective Duration	5.93 years
683	# of holdings	8,264
+0.61	Correlation to S&P 500	-0.01
15-25%*	Non-Investment Grade Range	0%
0.25%	Expense Ratio	0.04%

\*Based on the high and low level of holdings for below BBB- rated bonds since FIBR's inception on 02/24/2015.

Source: BlackRock, as of 09/30/2020. Risk contribution graphic based on BlackRock Solutions models and is subject to change. Correlation based on 5-year trailing correlation using monthly return. Correlation measures how two securities move in relation to each other. Correlation ranges between +1 and -1. A correlation of +1 indicates returns moved in tandem, -1 indicates returns moved in opposite directions, and 0 indicates no correlation.

**Performance data represents past performance and does not guarantee future results. Investment return and principal value will fluctuate with market conditions and may be lower or higher when you sell your shares. Current performance may differ from the performance shown. For most recent month-end performance see [www.iShares.com](http://www.iShares.com). For standardized fund performance, see the end of this document.**

Fees as of current prospectus All other data as of 9/30/20	Inception date	Gross Expense Ratio	30-Day SEC Yield	1-year returns		5-year returns		10-year returns		Since inception	
				NAV	Mkt price	NAV	Mkt price	NAV	Mkt price	NAV	Mkt price
iShares U.S. Fixed Income Balanced Risk Factor ETF (FIBR)	2/24/15	0.25%	1.58%	3.43%	3.29%	3.94%	3.83%	--	--	3.42%	3.40%
iShares Core U.S. Aggregate Bond ETF (AGG)	9/22/03	0.04%	1.21%	6.89%	6.80%	4.11%	4.10%	3.55%	3.52%	4.26%	4.26%

**The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting [www.iShares.com](http://www.iShares.com) or [www.BlackRock.com](http://www.BlackRock.com).**

Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the fund. Any applicable brokerage commissions will reduce returns. Beginning August 10, 2020, market price returns for BlackRock and iShares ETFs are calculated using the closing price and account for distributions from the fund. Prior to August 10, 2020, market price returns for BlackRock and iShares ETFs were calculated using the midpoint price and accounted for distributions from the fund. The midpoint is the average of the bid/ask prices at 4:00 PM ET (when NAV is normally determined for most ETFs). The returns shown do not represent the returns you would receive if you traded shares at other times.

**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 and, if available, 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.

The Fund's use of derivatives may reduce the Fund's returns and/or increase volatility and subject the Fund to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation. The Fund could suffer losses related to its derivative positions because of a possible lack of liquidity in the secondary market and as a result of unanticipated market movements, which losses are potentially unlimited. There can be no assurance that the Fund's hedging transactions will be effective.

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Investment comparisons are for illustrative purposes only. To better understand the similarities and differences between investments, including investment objectives, risks, fees and expenses, it is important to read the products' prospectuses. Diversification may not protect against market risk or loss of principal.

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