SEEK OUTPERFORMANCE AT A LOW COST

Use factor insights to pursue portfolio outcomes

Most core bond portfolios are dominated by interest rate risk. The Bloomberg Barclays U.S. Aggregate Bond Index, while made up of 10,000+ bonds from many different sectors, actually derives 80-90% of its risk from interest rates. As a consequence, your bond portfolio may benefit from a more diversified approach to generate returns.

Putting factors to work

Through a factor perspective, it’s possible to rethink bond portfolio construction using interest rate and credit risk as building blocks. On average, these two risks are negatively correlated, making them key components for seeking diversified sources or return.

The iShares Edge U.S. Fixed Income Balanced Risk ETF (FIBR) may provide better risk-adjusted returns than typical core bond portfolios by balancing interest rates and credit risk exposure. Compare a hypothetical $10,000 investment in FIBR versus other index and active strategies.

FIBR has delivered outperformance at a low cost

Growth of $10,000
(2/24/2015 – 3/31/2020)

Source: Morningstar, since FIBR inception from 2/24/15 to 3/31/20. The chart reflects a hypothetical $10,000 investment and assumes reinvestment of dividends and capital gains. Fund expenses, including management fees and other expenses were deducted. Intermediate Core-Plus Bond Category returns represented by the average NAV returns of the Morningstar U.S. Intermediate Core-Plus Bond Fund Category which included a total of 530 ETFs and mutual funds. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. 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. For standardized fund performance, see the back page.

Why FIBR?

Use to seek income and improved risk-adjusted returns through a diversified portfolio of bonds.

Source: BlackRock Solutions. Using monthly Bloomberg Barclays Index data between January 1989 and December 2019, interest rate risk was ~90% of the Bloomberg Barclays US Aggregate Bond Index’s total risk.
How does FIBR balance factors?

The index of FIBR seeks an even split between two well-known fixed income factors—interest rate risk and credit risk—which historically have been negatively correlated to each other.

FIBR seeks to track the Bloomberg Barclays U.S. Fixed Income Balanced Risk Index which balances these two factors using 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 selecting bonds from the most efficient sectors.

3. **Apply hedge to balance** – The index measures the resulting risk and applies an interest rate hedge to balance credit and interest rate risk.

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### Know your factors

**Interest Rate Risk**
- Risk that bond prices decline when interest rates increase.
- Has tended to drive returns of higher quality bonds and diversify equity risk.

**Credit Risk**
- Risk that this issuer will default on the bonds.
- Has tended to dominate returns in riskier bonds and be correlated with equity risk.

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### Index target portfolio construction

1. **Target equal interest rate & credit risk**

   - 50% Credit risk
   - 50% Interest rate risk

2. **Diversify credit risk**

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

3. **Apply hedge to balance**

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

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Source: Bloomberg Barclays Indices, as of 3/31/20.
How does FIBR compare to the aggregate?

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. The fund has a duration, or interest rate risk, which helps to offset equity risk.

While duration is an important component to a portfolio, it can lead to increased sensitivity to changes in interest rates (i.e. the higher the duration, the greater the risk of a decrease in principal value if interest rates rise). It is important to balance interest rate risk. FIBR may act as an effective complement to traditional core bond holdings by maintaining a more equal balance to interest rate and credit risk while also providing a higher yield.

Portfolio risk comparison of FIBR and AGG

<table>
<thead>
<tr>
<th></th>
<th>FIBR</th>
<th>AGG</th>
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</thead>
<tbody>
<tr>
<td>30-Day SEC Yield</td>
<td>3.42%</td>
<td>1.84%</td>
</tr>
<tr>
<td>Effective Duration</td>
<td>2.80 years</td>
<td>5.50 years</td>
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</table>

Source: BlackRock, as of 3/31/20. Risk contribution based on BlackRock Solutions models and is subject to change.

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. For standardized fund performance, see the end of this document.
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Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. Market returns are based upon the midpoint of the bid/ask spread at 4:00 p.m. eastern time (when NAV is normally determined for most ETFs), and do not represent the returns you would receive if you traded shares at other times. Performance shown reflects fee waivers and/or expense reimbursements by the investment advisor to the fund for some or all of the periods shown. Performance would have been lower without waivers.

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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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