



Picking the right ETF: What to know, what to avoid

Daniel Prince, CFA

Head of iShares Product Consulting

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iShares®
by BLACKROCK®

Agenda

Why use ETFs



How to use ETFs



Getting started
with ETFs

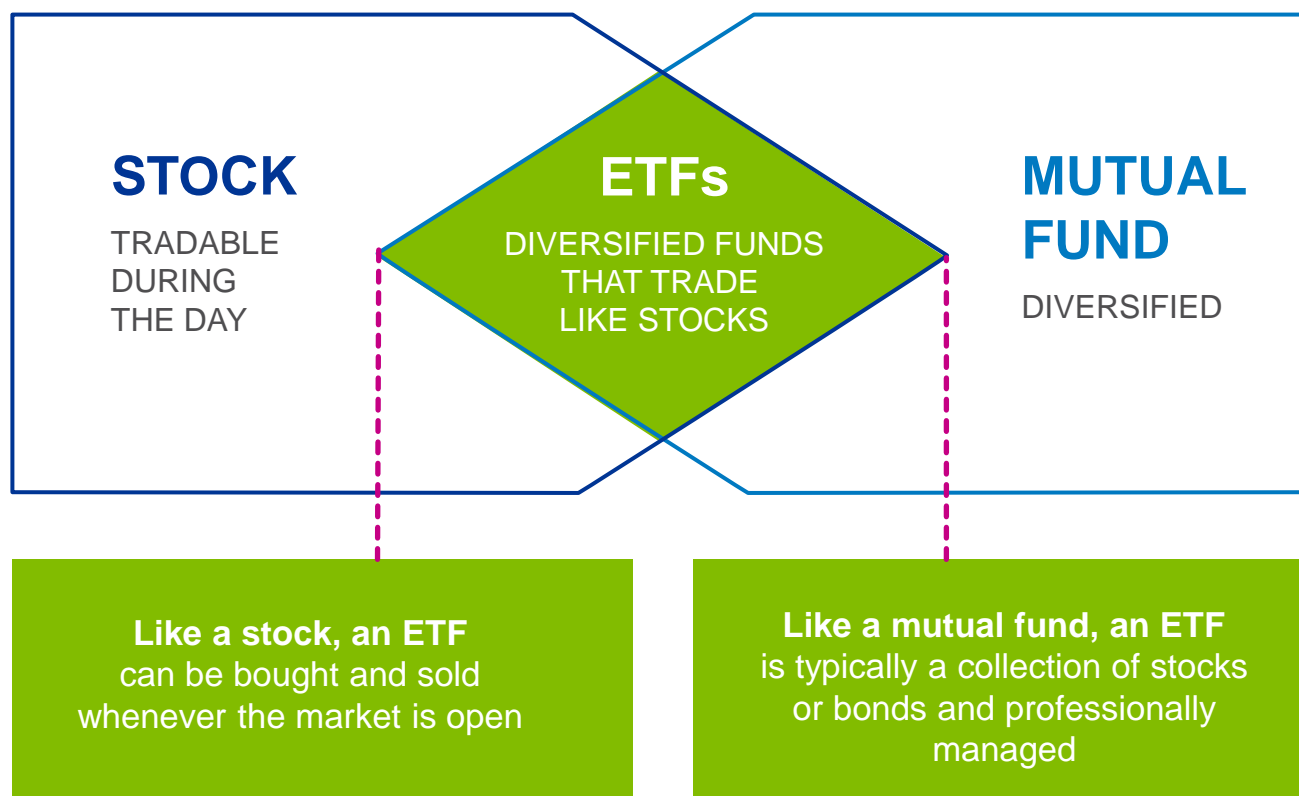




Why use ETFs

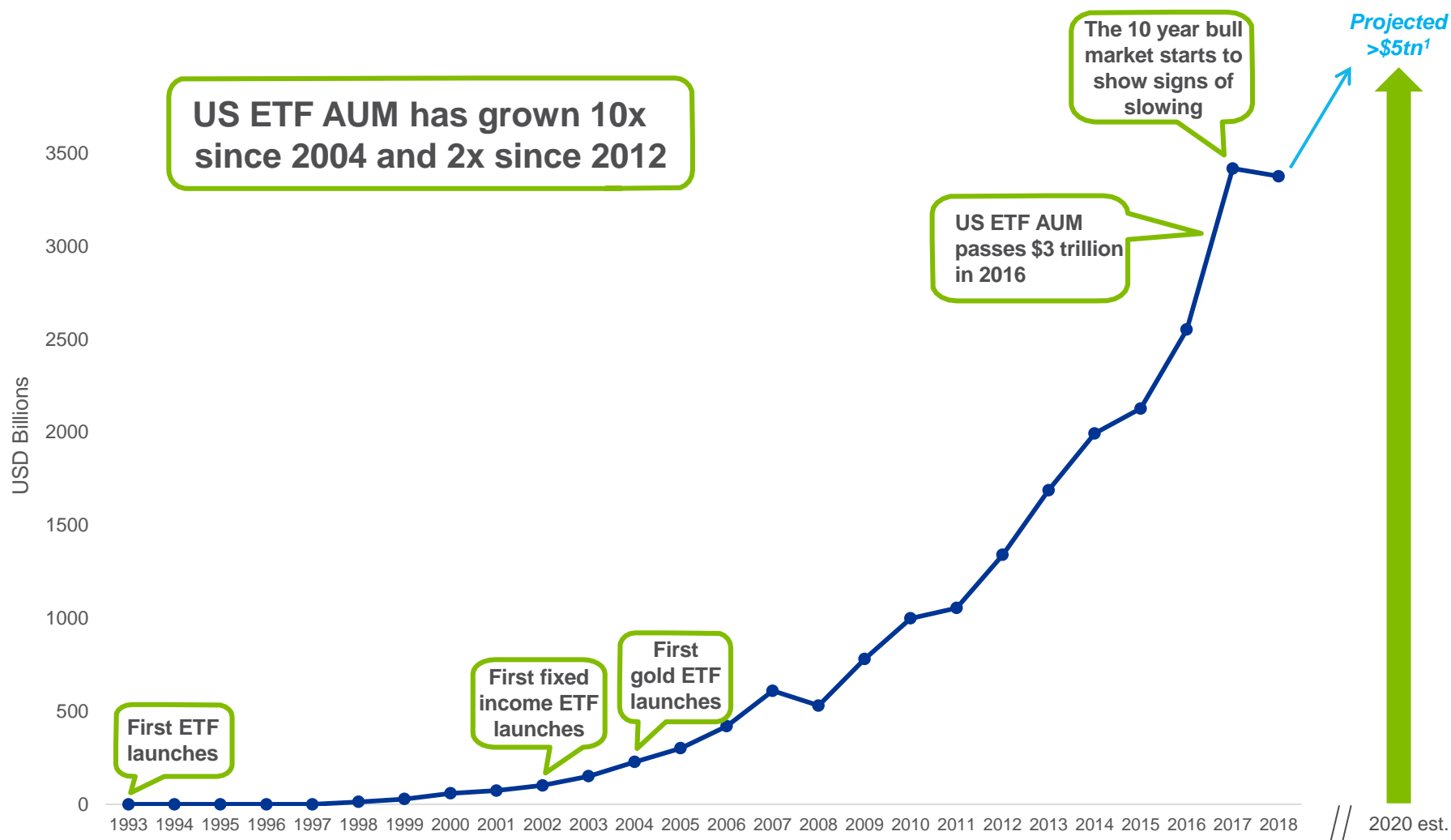
ETFs offer the best of both worlds

ETFs offer a low cost, diversified, tax efficient way to invest



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. For more information on the differences between traditional mutual funds and ETFs, see Appendix.

Evolution and growth of the ETF industry



Source: Morningstar as of 12/31/2018. US ETF flows from the following Morningstar categories: International Equity, US Equity, Sector Equity, Taxable Bond, Commodities, Alternative, Allocation, Municipal Bond.

¹Source: PriceWaterhouseCoopers, *ETF 2020: Preparing for a new horizon*. Forecasted growth of global industry assets under management.

Investors are increasing their ETF usage

1 in 3

U.S. investors own
an ETF

62%

Plan to buy ETFs in
the next 12 months

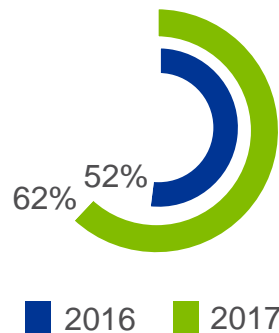
88%

Of investors who own ETFs
plan to continue or increase
their ETF usage

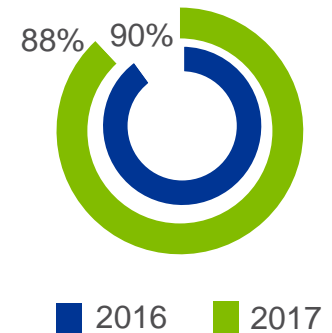
Growth of ETF
ownership



Plan to allocate any new
investment to ETFs over
the next 12 months



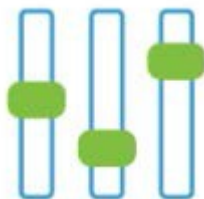
Plan to continue
allocating to ETFs over
the next 12 months



Source: BlackRock ETF Pulse Survey 2018. The 2018 BlackRock ETF Pulse Survey was conducted from August 22nd through September 3rd, 2017 by Market Strategies International, an independent research company. The survey interviewed over 1,000 individual investors from nationally representative online samples of household financial savings/investment decision makers age 21-75, with \$100K+ in investible assets and aware of ETFs. This survey was sponsored by BlackRock.

Why ETFs?

Competitive performance



Over the last 5 years iShares market cap S&P style box ETFs outperformed 80% of peers across all nine style boxes¹

Low cost



iShares ETFs cost 1/3 as much as the typical mutual fund²

Tax efficient

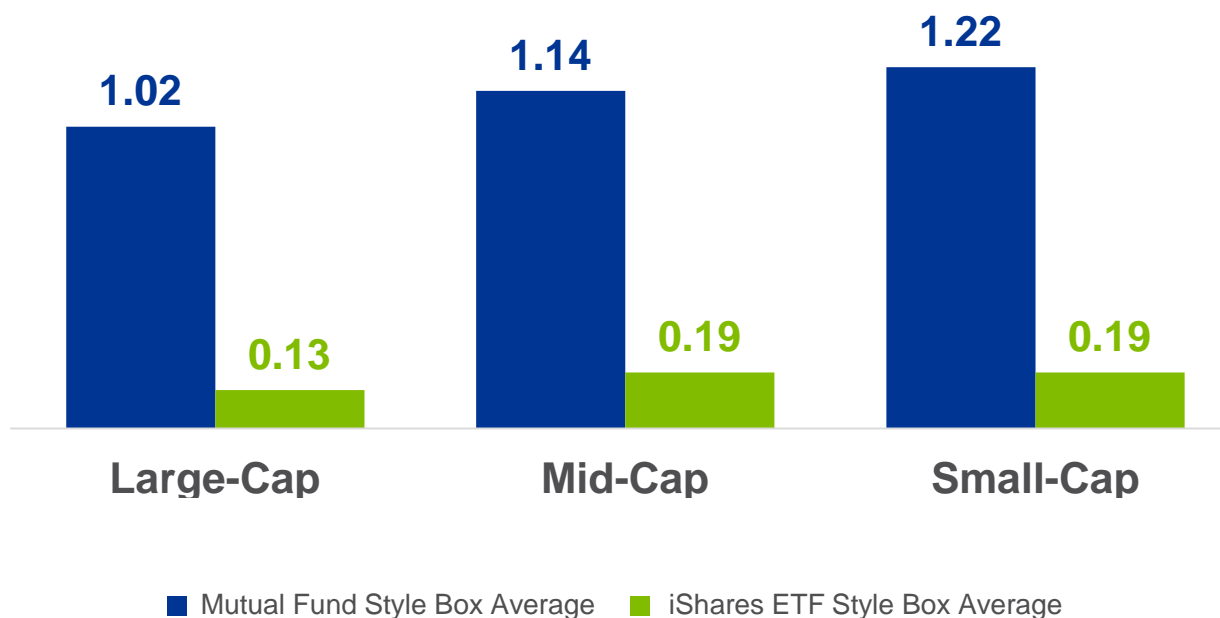


6% of iShares ETFs on average paid capital gains distributions over the last 5 years vs. 59% of mutual funds³

¹ Morningstar, as of 12/31/2018. Comparison universe is ETFs and mutual funds in the Morningstar category and uses total return. Overall figure is a weighted average of the percentage of funds that the iShares ETF outperformed in each style box, weighted based on the number of funds in the Morningstar category. The funds outperformed 62% and 72% of peers on a 1 and 10 year basis, respectively. Performance may be different for other time periods. iShares market cap S&P style box ETFs are IVV, IJH, IJR, IVW, IVE, IJK, IJJ, IJT, and IJS. Past performance is no guarantee of future results. ² Source Morningstar, as of 12/31/18. Comparison is between the average Prospectus Net Expense Ratio for the iShares ETFs (0.34%) and active open-end mutual funds (0.96%). ³ Source: Morningstar, as of 12/31/18. Average number of mutual funds that paid a capital gain distribution each year over 5 years. Universe includes all U.S. open ended mutual funds, oldest share class used. Universe includes all funds inception before 10/31 in each year and excludes funds that closed before 10/31 in each year. Past distributions are not indicative of future distributions.

Low cost: don't overpay for style box exposure

Mutual fund costs vs. iShares style box ETFs

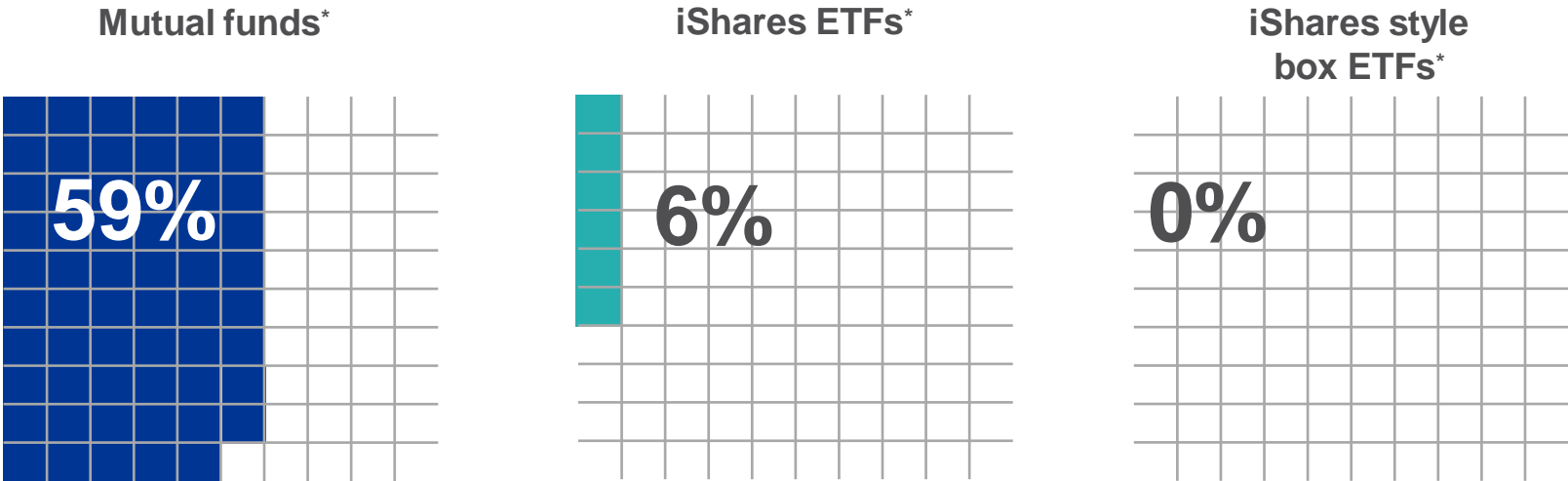


Source: Morningstar as of 12/31/2018. **Past performance not indicative of future distributions.**

Comparison is between the prospectus net expense ratio for the oldest share class of active U.S. mutual funds and iShares ETFs within the respective category. Morningstar categories for large cap active U.S. mutual funds include U.S. Equity Large Cap Blend, U.S. Equity Large Cap Value and U.S. Equity Large Cap Growth. Mid cap active U.S. mutual funds include U.S. Equity Mid Cap category, and small cap active U.S. mutual funds include U.S. Equity Small Cap category. Large cap S&P style box iShares ETFs include IVV, IVW, IVE and OEF. Mid cap S&P style box iShares ETFs include IJH, IJK and IJJ. Small cap S&P style box iShares ETFs include IJR, IJS and IJT.

Tax efficient: iShares ETFs are built and managed with taxes in mind

Percentage of funds that paid capital gains over the last 5 years



*Source: Morningstar, as of 12/31/18. Average number of mutual funds that paid a capital gain distribution each year over 5 years. Universe includes all U.S. open ended mutual funds, oldest share class used. Universe includes all funds inception before 10/31 in each year and excludes funds that closed before 10/31 in each year. Past distributions are not indicative of future distributions.



How to use ETFs

How to use ETFs

1

Build Your Core



2

Pursue Income



3

Seek to Reduce Risk



4

Explore Factors

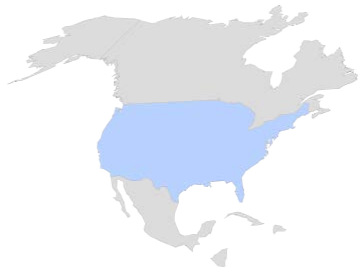


For illustrative purposes only

1

Build Your Core

iShares Core ETFs



U.S. Equities

S&P 500

S&P Mid
Cap

S&P Small
Cap



International Equities

Developed
Markets

Emerging
Markets

Fixed Income

Bonds

U.S.
Investment
Grade

U.S. Total
Market

2

Seek income

What is the Role of Income in Your Portfolio?



Diversify Risk

Core Bonds

**Seek Increased
Income**

**High Yield, Preferred, Emerging Markets,
Dividend Paying Stocks**

Put Cash to Work

Short Duration Strategies

3

Seek to Reduce Risk

iShares Minimum Volatility ETFs



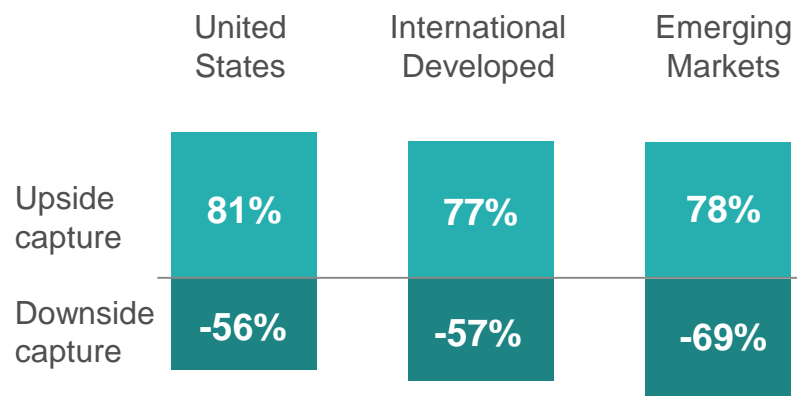
Missing top-performing days can hurt your return

Hypothetical investment of \$100,000 in the S&P 500 Index over 20 years (1998-2018)



Bloomberg, as of 12/31/18. Daily data from 1/1/2008 to 12/31/18 for the S&P 500. Index returns are for illustrative purposes only.

Upside/downside capture



Source: Morningstar as of 12/31/18. Based on performance between 11/1/11 – 12/31/18. Data compares the MSCI USA Minimum Volatility Index to the S&P 500, the MSCI EAFE Minimum Volatility Index to the MSCI EAFE Index, the MSCI Emerging Markets Minimum Volatility Index to the MSCI Emerging Markets Index and the MSCI All Country World Minimum Volatility Index to the MSCI ACWI Index.

Index returns are of illustrative purposes only and do not represent actual iShares Fund performance. 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. For standardized performance, please see the appendix. Index returns are for illustrative purposes and do not represent actual iShares Fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. For standardized returns, see Appendix.

4

Explore Factors

Factor-based investing focuses on potential drivers of *returns*



Sources of return can be broken down into macro factors, style factors and pure alpha

Macro Factors:



- Economic Growth
- Credit
- Inflation
- Real rates
- Liquidity
- Emerging Markets

Style Factors:



- Value
- Momentum
- Quality
- Size
- Low Volatility
- Carry
- Curve

Alpha:

Only managers with skill have historically generated consistently positive returns

- Security selection
- Country and industry selection
- Market and factor timing



4

Explore Factors

What are factors and why have they worked?



Our funds seek to track indexes that employ intuitive screens that active managers have used for generations, but offer similar cost benefits to traditional market cap weighted ETFs.

 Seek outperformance	Factor	Objective	Screens
	Value	Invests in stocks that are cheap relative to fundamentals	<ul style="list-style-type: none"> • Price/forward earnings • Price/book • Enterprise value/cash flow
	Quality	Invests in companies with healthy balance sheets	<ul style="list-style-type: none"> • Return on equity • Earnings consistency • Debt to equity
	Momentum	Invests in stocks on an upswing	<ul style="list-style-type: none"> • Risk-adjusted price momentum
 Reduce risk	Minimum Volatility	Invests in stocks that have collectively exhibited lower volatility	<ul style="list-style-type: none"> • Measures volatility of each stock in the broad market index • Analyze correlations between stocks, sectors and countries



Getting started with ETFs

A framework for evaluating ETFs

Manager

How well do you know your manager / provider?

Exposure

What's inside your fund?

Costs

How much are you paying in total?

Critical questions

- ☐ How experienced is the firm in developing, managing, and supporting ETFs?
- ☐ What are the firm's total assets under management and total ETF assets? What is the competitive market share of each?
- ☐ How does the firm manage risk with market participants and index providers?
- ☐ What is the firm's service model? How does it work with you as a partner to your business?

Example: choosing an ETF partner

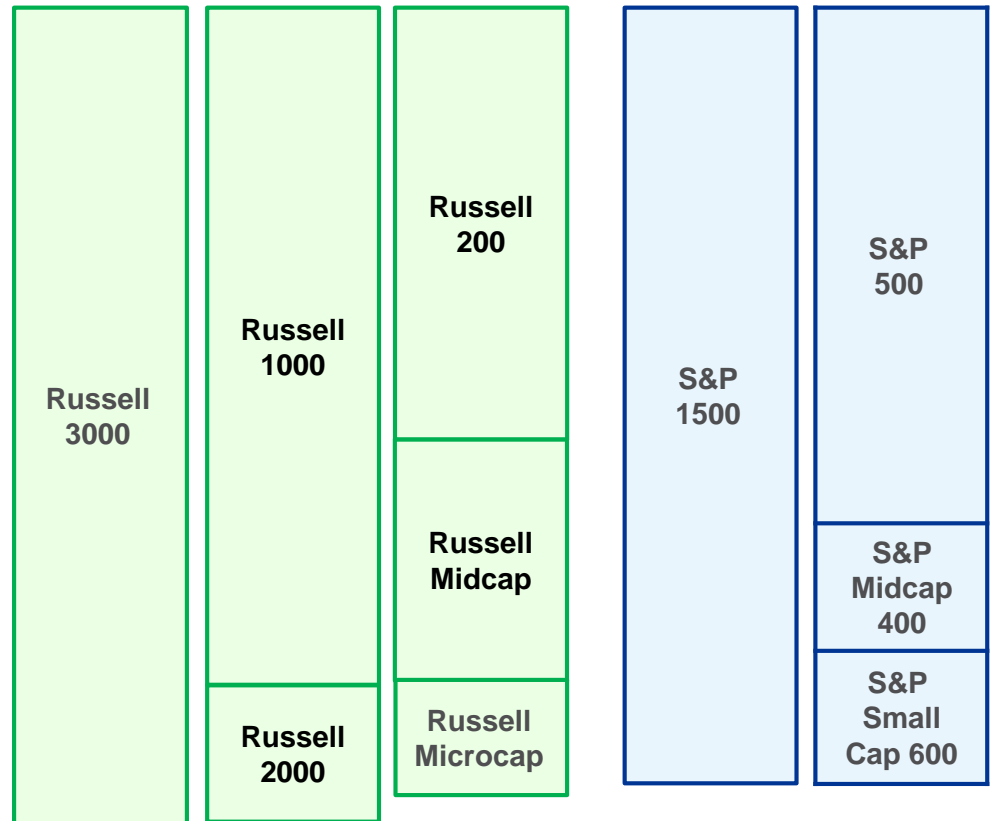


Leader. Expert. Partner.

Critical questions

- ☐ How widely accepted is the index?
- ☐ What is the index methodology – how does it select components, rebalance, etc?
- ☐ What is the ETF's method for tracking the index and why was this method chosen?
- ☐ How closely has the ETF tracked its benchmark?

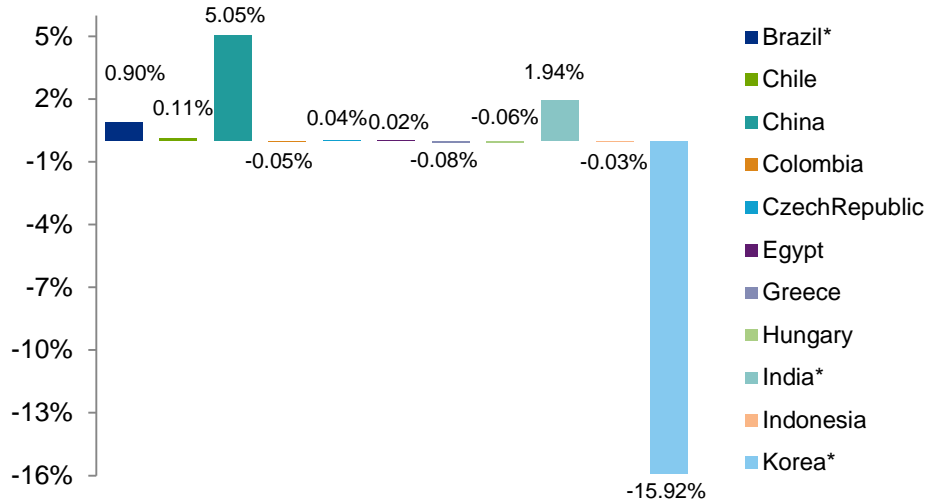
Example: Russell vs. S&P exposures



For illustrative purposes only – market cap spectrum not to scale.

Due Diligence Case Study – Two Emerging Markets Indexes Can Vary

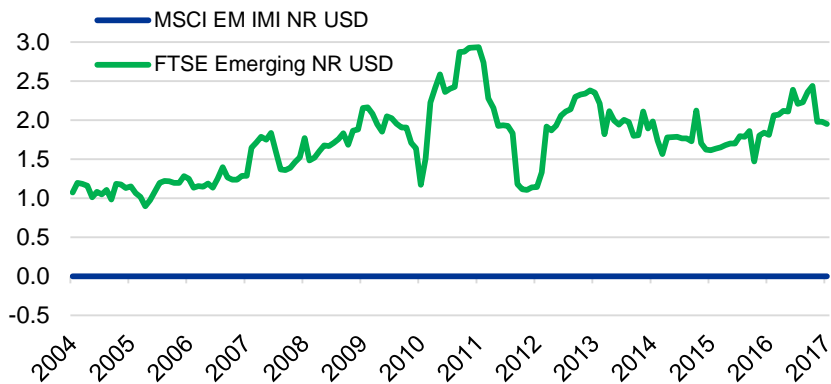
Relative country exposure difference in %
(MSCI EM IMI Index – FTSE EM Index)



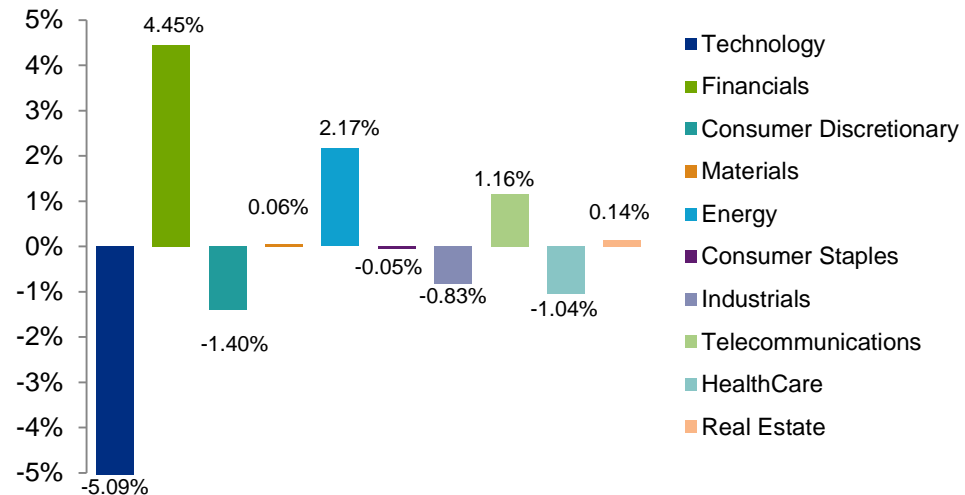
Notables Differences:

- ▶ MSCI Index had a 15.5% to South Korea where FTSE EM Index has no exposure to South Korea
- ▶ MSCI EM Index has a larger weight to Technology & Consumer Discretionary
- ▶ Country and Sector differences can impact returns

Rolling 12 Month Tracking Error
Excess Annualized St Dev (%)



Relative sector exposure difference in %
(MSCI EM IMI Index – FTSE EM Index)



Source: MSCI, FTSE, Morningstar as of 4/30/2018

Costs

How much are you paying in total?

Critical questions

- ☐ What is the expense ratio, trading cost, and average spread?
- ☐ How do the spread and volume factor into overall cost on a trade and per annum basis?
- ☐ How are internal transaction costs (including rebalancing costs) minimized?
- ☐ How much in capital gains distributions has the fund paid in the past?

Example: consider the total cost of ownership

Explicit costs

Expense ratio

Brokerage commission

+

Implicit costs

Trading costs

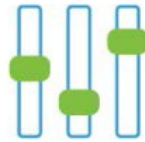
Performance vs.
benchmark
(tracking difference)

Taxes on distributions

In summary

Why ETFs?

Competitive performance



Low cost



Tax efficient



How to use ETFs

- ▶ Build your core
- ▶ Seek to generate income
- ▶ Seek to reduce risk
- ▶ Explore factors

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Appendix

ETFs and traditional mutual funds: know the differences

Criteria	Mutual funds	ETFs
Management	Active	Passive
Performance goal	Outperform a benchmark and/or deliver an outcome	Track a benchmark
Buying / selling shares	Once per day via fund company	Intraday on exchanges
Price to buy / sell	End-of-day NAV, less fees	Current market price, which may differ from NAV
Fees	Expense ratio + any sales loads / redemption fees	Expense ratio + transaction / brokerage costs
Tax impact¹ of buyers / sellers	Shareholders may be impacted by all other shareholders' actions	Shareholders only impacted by their own action
Holdings disclosure	Typically quarterly	Daily
Benefits	<ul style="list-style-type: none"> ▶ Opportunity to outperform the index ▶ Potential to limiting the downside ▶ Buy/sell decisions based on research 	<ul style="list-style-type: none"> ▶ Exposure to market index ▶ Generally lower fees ▶ Typically more tax-efficient
Trade-offs	<ul style="list-style-type: none"> ▶ Potential to underperform index ▶ Generally higher fees ▶ Typically less tax-efficient 	<ul style="list-style-type: none"> ▶ Does not seek to outperform index ▶ Participate in all of index downside ▶ Buy/sell decisions based on index, not research

¹ Both vehicles are obliged to distribute capital gains to all shareholders

Important information regarding iShares ETFs

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.

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. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency and its return and yield will fluctuate with market conditions. Securities with floating or variable interest rates may decline in value if their coupon rates do not keep pace with comparable market interest rates. A fund's income may decline when interest rates fall if most of the debt instruments held by the fund have floating or variable rates. There is no guarantee that dividends will be paid.

When comparing stocks or bonds and iShares Funds, it should be remembered that management fees associated with fund investments, like iShares Funds, are not borne by investors in individual stocks or bonds. The annual management fees of iShares Funds may be substantially less than those of most mutual funds. Buying and selling shares of iShares Funds will result in brokerage commissions. Although market makers will generally take advantage of differences between the NAV and the trading price of iShares Fund shares through arbitrage opportunities, there is no guarantee that they will do so.

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, in concentrations of single countries or smaller capital markets. Narrowly focused investments, including REIT, mining, preferred stock, factor and floating rate note funds may be subject to higher volatility and risks specific to those sectors. The iShares Minimum Volatility ETFs may experience more than minimum volatility as there is no guarantee that the underlying index's strategy of seeking to lower volatility will be successful.

Investment in a fund of funds is subject to the risks and expenses of the underlying funds.

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.

Important Information

The iShares Minimum Volatility ETFs may experience more than minimum volatility as there is no guarantee that the underlying index's strategy of seeking to lower volatility will be successful.

There can be no assurance that performance will be enhanced for funds that seek to provide exposure to certain quantitative investment characteristics ("factors"). Exposure to such investment factors may detract from performance in some market environments, perhaps for extended periods. In such circumstances, a fund may seek to maintain exposure to the targeted investment factors and not adjust to target different factors, which could result in losses.

There is no guarantee that dividends will be paid.

Funds that concentrate investments in specific industries, sectors, markets or asset classes may underperform or be more volatile than other industries, sectors, markets or asset classes and than the general securities market.

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

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.

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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.

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