

STRATEGIC INCOME FUNDS COMMENTARY

Portfolio Management Commentary – Q2 2019

Comprehensive Fixed Income Solutions

The objectives of XSC and XSI are income seeking and the objective of XSE is total return. By using the Strategic Fixed Income suite, advisors will have two options in their implementation: a one-ticker solution or a do-it-yourself construction with individual tickers.

Featured Funds:

XSC

iShares Conservative Short Term Strategic Fixed Income ETF

XSI

iShares Short Term Strategic Fixed Income ETF

XSE

iShares Conservative Strategic Fixed Income ETF

Quarterly Portfolio Commentary

- The Strategic Fixed Income Funds had positive returns but underperformed the FTSE Canada Universe Bond Index in the second quarter. XSE continues to outperform the index on a YTD basis.
- The trade dispute widened existing cracks in the global economy and abruptly reversed the risk rally that had buoyed markets since the start of the year. Investors flocked to safe havens, driving government bond yields to record lows. The 10-year Government of Canada (GoC) bond yield fell 15 basis points (bps) to 1.47%.
- Global credit markets delivered another quarter of positive returns as sentiment waxed and waned with developments in geopolitics and markets received a further boost from the US and European central banks turning decisively more dovish.
- For XSC and XSI, the two income-oriented funds, we continue to hold high quality short-end exposure coupled with US credit exposure which offer attractive income at compelling risk levels.
- The total return-focused XSE benefitted from the allocations to both US and Canadian corporates. The fund's allocation to long duration government bonds was additive to performance over the quarter and it continues to play an important role in providing ballast against risk-off moves.

As of 6/30/2019.

Allocation Changes

In the last rebalance, we made the following portfolio changes:

- **Focus on high quality**

Policy support from global central banks have underpinned the strong rally across risk assets since the start of the year. With a backdrop of easier financial conditions and core inflation close to target levels, risk assets should continue to perform well. However, growing risks from prolonged global trade tensions, coupled with already slowing momentum in the global growth outlook, lead us to have a preference for high quality carry within our fixed income portfolios, through both government and corporate exposure.

While we remain constructive on credit for 2019 given the still healthy corporate fundamentals and supportive technicals in the global demand for income and yield, it is important to be more cognizant of one's high yield exposure in this extended late cycle. As a result, we have started to shift a portion of the portfolio away from high yield into investment grade as a way to source durable income.

As of 6/30/2019.

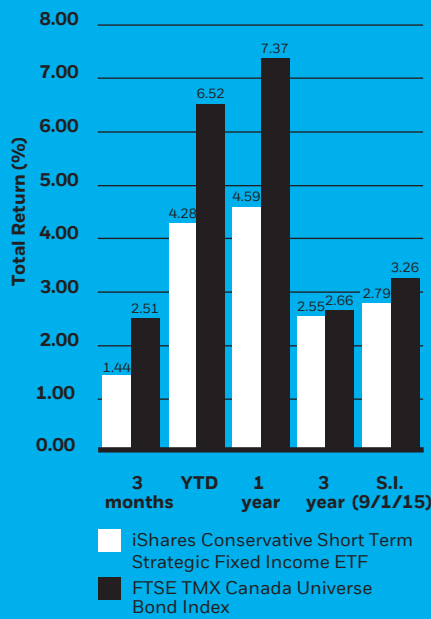
Characteristics

Portfolio Characteristics	iShares Conservative Short Term Strategic Fixed Income ETF (XSC)	iShares Short Term Strategic Fixed Income ETF (XSI)	iShares Conservative Strategic Fixed Income ETF (XSE)
Weighted Average Duration (years)	2.94	2.65	7.97
Weighted Average Yield to Maturity (%)	2.67	3.42	2.63
Weighted Average Coupon (%)	3.17	3.88	3.62
Weighted Average Distribution Yield (%)	2.65	3.28	2.79
Management Fee (%)	0.40	0.50	0.50
Sector Breakdown (%)			
Government	41.47	27.16	40.52
Corporate	58.53	72.84	59.48
Allocation (%)			
High Yield Allocation	12.81	29.94	5.24

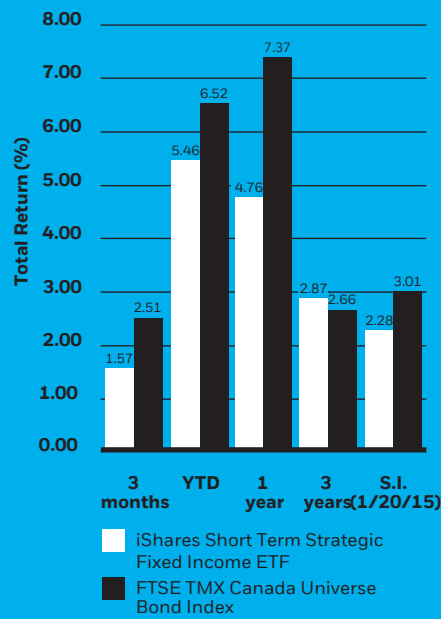
As of 6/30/2019.

Performance

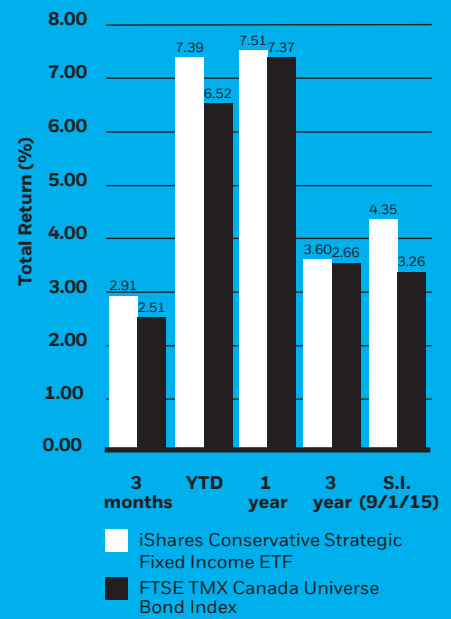
XSC



XSI



XSE

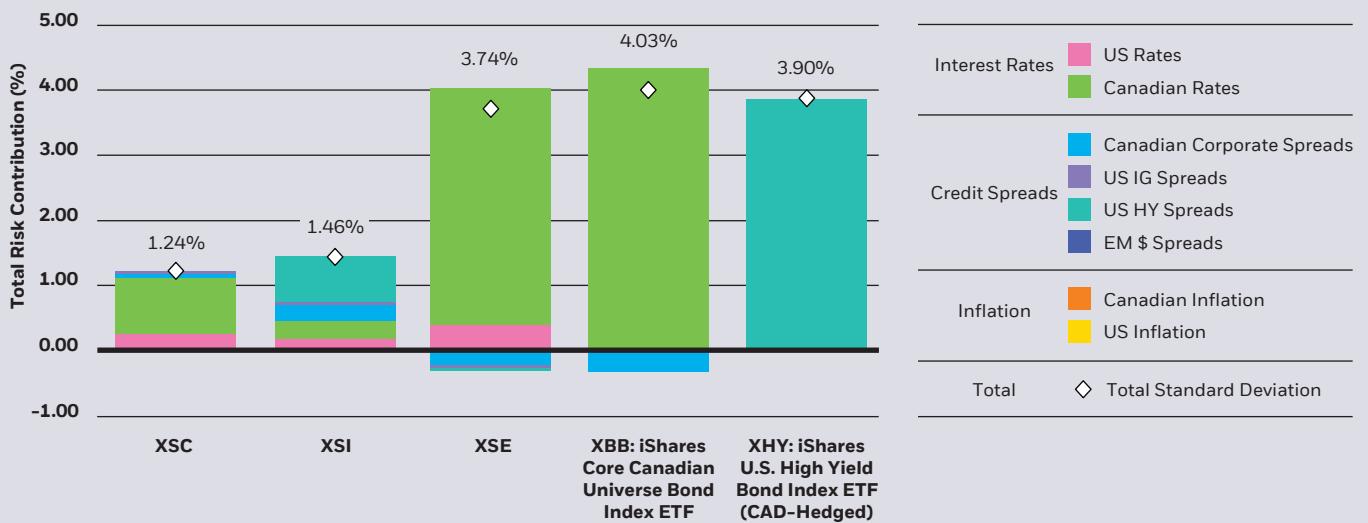


As of 6/30/2019. All performance for periods greater than one year is annualized. Past performance is not indicative of future performance.

Risk Analysis

Risk Contribution

The suite seeks to achieve the targeted yield or return by diversifying across the three principal risk factors, interest rates, credit spreads and inflation, that can impact fixed income investments. This chart shows the contribution of these three risk factors for XSC, XSI and XSE against the broad Canadian market proxied by XBB, the iShares Core Canadian Universe Bond Index ETF and against the broad U.S. high yield market proxied by the XHY, the iShares U.S. High Yield Bond Index CAD-Hedged ETF.



BlackRock, as of 6/30/2019. For more information on Risk Contribution and Risk Exposures, please see the end of this document.

Risk Exposures – Correlations

Correlations for these portfolios are estimated based on underlying fund holdings and risk factor exposures. They are intended to convey expected longer-term relationships and offer relative comparisons. Correlation ranges between +1 and -1. A positive correlation indicates a tendency for co-movement with the benchmark, while a negative correlation indicates that the portfolio and the benchmark tend to move in opposite directions.

	XSC	XSI	XSE	Canadian Bonds	Government of Canada 10 Year Bond	US Investment Grade	US High Yield	Emerging Market Debt (USD\$)	Canadian Equities (S&P/TSX)	US Equities (S&P 500)
XSC		0.75	0.80	0.61	0.50	0.56	0.29	0.36	0.13	0.01
XSI	0.75		0.31	0.10	0.00	0.36	0.56	0.46	0.41	0.41
XSE	0.80	0.31		0.91	0.83	0.60	-0.07	0.19	-0.09	-0.26
Canadian Bonds	0.61	0.10	0.91		0.93	0.55	-0.20	0.02	-0.19	-0.33
Government of Canada 10 Year Bond	0.50	0.00	0.83	0.93		0.48	-0.31	-0.05	-0.26	-0.39
US Investment Grade	0.56	0.36	0.60	0.55	0.48		0.24	0.48	0.13	0.12
US High Yield	0.29	0.56	-0.07	-0.20	-0.31	0.24		0.39	0.48	0.48
Emerging Market Debt (USD\$)	0.36	0.46	0.19	0.02	-0.05	0.48	0.39		0.41	0.45
Canadian Equities (S&P/TSX)	0.13	0.41	-0.09	-0.19	-0.26	0.13	0.48	0.41		0.80
US Equities (S&P 500)	0.01	0.41	-0.26	-0.33	-0.39	0.12	0.48	0.45	0.80	

Source: Bloomberg L.P. Correlations are based on daily returns on the last 12 months, ending 6/30/2019.

Canadian Bonds: FTSE TMX Canada Universe Bond Index, Canadian Equities: S&P/TSX Composite Index, US Investment Grade: iShares U.S. IG Corporate Bond Index ETF (CAD-Hedged), US High Yield: iShares U.S. High Yield Bond Index ETF (CAD-Hedged), EMD: iShares J.P. Morgan USD Emerging Markets Bond Index ETF (CAD-Hedged), US Equities: S&P500 Composite Index. ETF returns are calculated on NAV.

iShares Conservative Short Term Strategic Fixed Income ETF (XSC)

XSC seeks to generate income by investing primarily in securities of one or more iShares ETFs that provide exposure to Canadian and international fixed income securities, while adhering to certain portfolio constraints upon rebalancing. XSC will, upon rebalancing, generally: (i) limit its total exposure to high yield securities to 25% of its portfolio; and, (ii) limit its exposure to interest rate risk by maintaining a portfolio duration of less than five years.

In constructing XSC's portfolio, BlackRock Canada currently utilizes a proprietary portfolio optimization process to estimate efficient portfolios with total volatility levels that are consistent with a broadly diversified portfolio of Canadian fixed income securities. The investment strategy of XSC was recently enhanced to also target an average yield to maturity ranging between +50 and +100 bps above the FTSE TMX Canada Universe Bond Index.

Ticker	Allocations	Current
XSH	iShares Core Canadian Short Term Corporate + Maple Bond Index ETF	30%
XFR	iShares Floating Rate Index ETF	30%
XHY	Shares U.S. High Yield Bond Index ETF (CAD-Hedged)	9%
XSB	iShares Core Canadian Short Term Bond Index ETF	8%
SHY	iShares 1-3 Year Treasury Bond ETF	6%
XHB	iShares Canadian HYBrid Corporate Bond Index ETF	5%
XLB	iShares Core Canadian Long Term Bond Index ETF	4%
SHYG	iShares 0-5 Year High Yield Corporate Bond ETF	3%
XIG	iShares U.S. IG Corporate Bond Index ETF (CAD-Hedged)	3%
XCB	iShares Canadian Corporate Bond Index ETF	2%

As of 6/30/2019.

XSC seeks to hedge any foreign currency exposure back to Canadian dollars. Portfolio weights may not add up to 100% due to rounding.

This information should not be relied upon as investment advice, research, or a recommendation by BlackRock regarding (i) the Funds, (ii) the use or suitability of the model portfolios or (iii) any security in particular. Only an investor and their financial advisor know enough about their circumstances to make an investment decision.

iShares Short Term Strategic Fixed Income ETF (XSI)

XSI seeks to generate income by investing primarily in other iShares ETFs that provide exposure to fixed income securities.

In constructing XSI's portfolio, BlackRock Canada currently utilizes a proprietary portfolio optimization process to estimate efficient portfolios with total volatility levels that are consistent with a broadly diversified portfolio of Canadian fixed income securities. The investment strategy of XSI was recently enhanced to also target an average yield to maturity ranging between +100 and +150 bps above the FTSE TMX Canada Universe Bond Index.

Ticker	Allocations	Current
XFR	iShares Floating Rate Index ETF	29%
XHY	iShares U.S. High Yield Bond Index ETF (CAD-Hedged)	29%
XSH	iShares Core Canadian Short Term Corporate + Maple Bond Index ETF	19%
XHB	iShares Canadian HYBrid Corporate Bond Index ETF	15%
IGSB	iShares Short-Term Corporate Bond ETF	8%

As of 6/30/2019.

XSI seeks to hedge any foreign currency exposure back to Canadian dollars. Portfolio weights may not add up to 100% due to rounding.

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iShares Conservative Strategic Fixed Income ETF (XSE)

XSE seeks to generate income by investing primarily in securities of one or more iShares ETFs that provide exposure to Canadian and international fixed income securities while adhering to certain portfolio constraints upon rebalancing. In seeking to generate income, XSE will, upon rebalancing, generally limit its total exposure to high yield securities to 25% of its portfolio.

In constructing XSE's portfolio, BlackRock Canada currently utilizes a proprietary portfolio optimization process to estimate efficient portfolios with total volatility levels that are consistent with a broadly diversified portfolio of Canadian fixed income securities. The investment strategy of XSE was recently enhanced to also target a long-term expected return ranging between +75 and +125 bps above the FTSE TMX Canada Universe Bond Index, with the same or less level of risk.

Ticker	Allocations	Current
XLB	iShares Core Canadian Long Term Bond Index ETF	21%
XGB	iShares Canadian Government Bond Index ETF	20%
XSH	iShares Core Canadian Short Term Corporate + Maple Bond Index ETF	18%
XCB	iShares Canadian Corporate Bond Index ETF	14%
XIG	iShares U.S. IG Corporate Bond Index ETF (CAD-Hedged)	8%
XHB	iShares Canadian HYBRID Corporate Bond Index ETF	6%
XSB	iShares Core Canadian Short Term Bond Index ETF	5%
XHY	iShares U.S. High Yield Bond Index ETF (CAD-Hedged)	5%
IGSB	iShares Short Term Corporate Bond ETF	3%

As of 6/30/2019.

XSE seeks to hedge any foreign currency exposure back to Canadian dollars. Portfolio weights may not add up to 100% due to rounding.

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Wide Range of Fixed Income ETFs to Fit Individual Needs

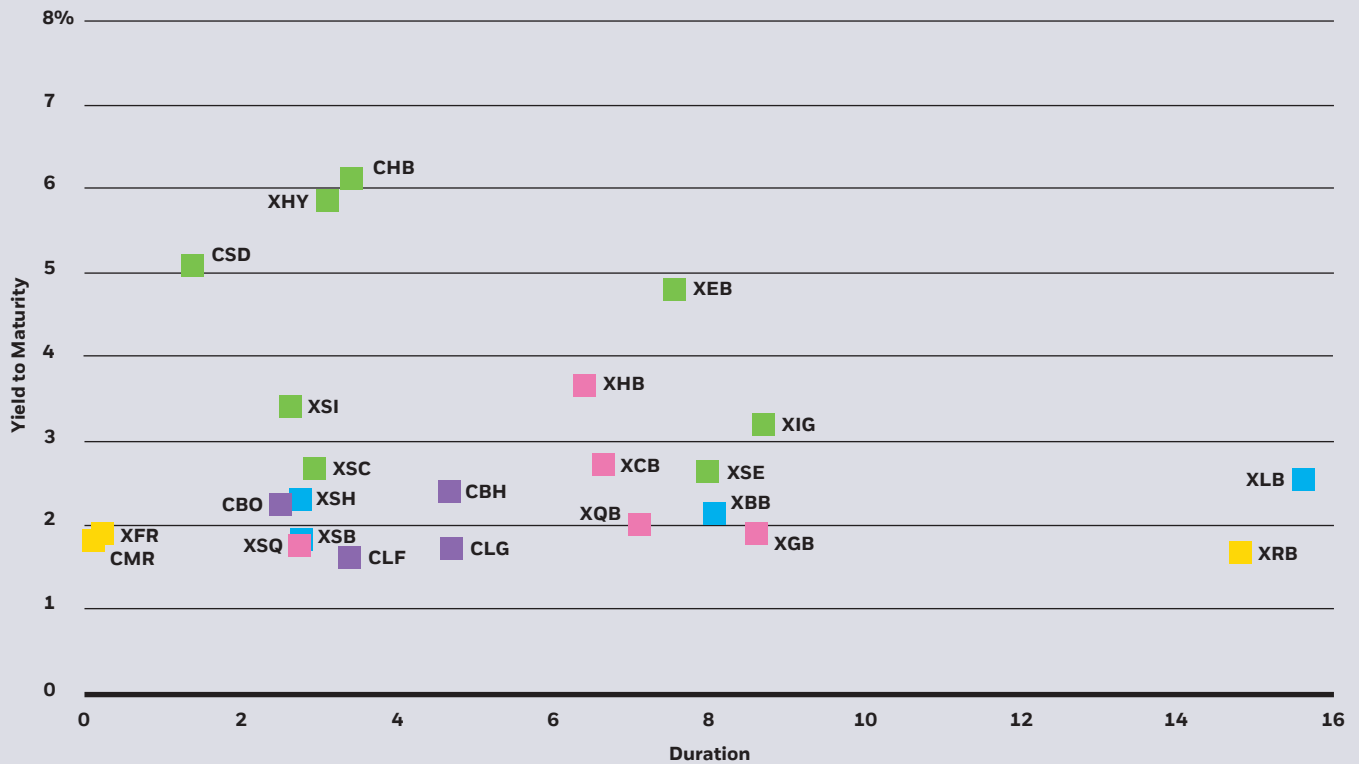
iShares has continued to revolutionize an asset class once known for opacity, illiquidity, and high fees. iShares offers investors more tools than ever to tailor their portfolios.

Ticker	ETF	Total Returns % as of June 30, 2019							Inception Date
		YTD	1 Month	1 Year	3 Year	5 Year	10 Year	Since Inception (Annualized)	
Seek enhanced yield or return with a strategic solution									
XSC	iShares Conservative Short Term Strategic Fixed Income ETF	4.28%	0.83%	4.59%	2.55%	-	-	2.79%	09/01/2015
XSI	iShares Short Term Strategic Fixed Income ETF	5.46%	1.36%	4.76%	2.87%	-	-	2.28%	01/20/2015
XSE	iShares Conservative Strategic Fixed Income ETF	7.39%	1.35%	7.51%	3.60%	-	-	4.35%	09/01/2015
Build your low cost core bond portfolio									
XBB	iShares Core Canadian Universe Bond Index ETF	6.53%	0.93%	7.29%	2.51%	3.65%	4.25%	5.21%	11/20/2000
XSB	iShares Core Canadian Short Term Bond Index ETF	2.66%	0.15%	4.00%	1.40%	1.73%	2.31%	3.98%	11/20/2000
XSH	iShares Core Canadian Short Term Corporate + Maple Bond Index ETF	3.66%	0.36%	4.84%	2.29%	2.47%	-	2.72%	09/13/2011
XLB	iShares Core Canadian Long Term Bond Index ETF	12.08%	2.17%	11.16%	4.22%	6.38%	7.03%	6.22%	11/06/2006
Customize your broad exposure									
XQB	iShares High Quality Canadian Bond Index ETF	5.91%	0.81%	6.79%	2.28%	3.40%	-	3.50%	11/19/2009
XSQ	iShares Short Term High Quality Canadian Bond Index ETF	2.70%	0.16%	4.07%	1.36%	-	-	1.77%	07/15/2014
XGB	iShares Canadian Government Bond Index ETF	6.25%	0.85%	7.03%	1.91%	3.43%	3.85%	4.09%	11/06/2006
XCB	iShares Canadian Corporate Bond Index ETF	6.68%	1.05%	6.78%	3.20%	3.61%	4.78%	4.63%	11/06/2006
Implement a convenient laddered approach									
CBO	iShares 1-5 Year Laddered Corporate Bond Index ETF	3.50%	0.31%	4.53%	1.92%	2.11%	2.99%	3.22%	02/25/2009
CBH	iShares 1-10 Year Laddered Corporate Bond Index ETF	4.71%	0.48%	5.69%	2.18%	2.81%	-	3.30%	10/20/2011
CLF	iShares 1-5 Year Laddered Government Bond Index ETF	2.23%	0.07%	3.62%	0.95%	1.52%	2.20%	2.66%	01/31/2008
CLG	iShares 1-10 Year Laddered Government Bond Index ETF	3.47%	0.21%	5.11%	1.22%	2.34%	-	2.44%	10/20/2011
Seek to protect against rising inflation									
XRБ	iShares Canadian Real Return Bond Index ETF	8.71%	1.37%	4.86%	1.71%	3.04%	4.80%	3.91%	12/19/2005
Manage interest rate risk									
XFR	iShares Floating Rate Index ETF	1.01%	0.12%	1.74%	1.44%	1.16%	-	1.31%	12/06/2011
Add international exposure									
XIG	iShares U.S. IG Corporate Bond Index ETF (CAD-Hedged)	11.03%	3.04%	11.08%	2.86%	3.74%	-	5.42%	01/21/2010
XHY	iShares U.S. High Yield Bond Index ETF (CAD-Hedged)	9.01%	2.35%	6.11%	5.63%	3.08%	-	5.88%	01/21/2010
CHB	iShares U.S. High Yield Fixed Income Index ETF (CAD-Hedged)	9.75%	2.42%	6.47%	5.88%	3.02%	-	5.79%	01/11/2010
CSD	iShares Short Duration High Income ETF (CAD-Hedged)	6.26%	1.29%	4.90%	4.09%	2.24%	-	3.59%	03/01/2011
XEB	iShares J.P. Morgan USD Emerging Markets Bond Index ETF (CAD-Hedged)	10.03%	3.25%	9.98%	2.83%	3.41%	-	4.72%	04/12/2011
Implement a view on credit quality									
XHB	iShares Canadian HYBRID Corporate Bond Index ETF	6.99%	1.07%	6.48%	4.60%	3.95%	-	5.20%	09/22/2010

As of 6/30/2019. BlackRock Asset Management Canada Limited ("BlackRock Canada").

Yield vs. Duration

With a comprehensive suite of fixed income iShares ETFs, investors can build a fixed income allocation based on risk/return objectives, balancing yield, duration and credit quality.



Bloomberg, 6/30/2019.

Contribution to risk is an additive measure of risk. The contribution to risk of a factor exposure of the fund is calculated as the change in the total portfolio risk that results from a small incremental increase to that factor exposure. This risk measure takes into account correlations across exposures and captures the risk of these as well as how diversifying they are in the total portfolio. Risk contributions are designed to sum to equal the total volatility of the portfolio.

Risk contribution factor exposures are: Total Risk contribution is the total standard deviation of the portfolio and is the sum of the risk contributions across rate and credit risk. Rate Risk contribution captures volatility associated with portfolio covariation with benchmark government interest rates. Credit Risk contribution captures volatility associated with portfolio covariation with investment grade, high yield and distressed debt credit spreads over benchmark interest rates. Inflation Risk contribution captures volatility associated with portfolio covariation with inflation expectations.

Want to learn more?

iShares.ca | 1-866-iShares (1-866-474-2737)

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