

# BOND ETFs – WAYS TO GET STARTED

**iShares**  
by BlackRock

## SAME POTENTIAL BENEFITS, DIFFERENT ASSET CLASS

Exchange traded funds (“ETFs”) first appealed to equity investors, providing efficient access to the world’s stock markets. Fixed income is the fastest growing ETF segment, with bond ETF assets growing over 8x since 2008.<sup>†</sup> Investors increasingly recognize that the potential benefits of ETFs—competitive performance, low cost and tax efficiency—apply to bonds just as they do to equities.

### Competitive performance

iShares bonds ETFs have outperformed a majority of their peers over the last 5 years<sup>1</sup>

### Low cost

On average, iShares bond ETFs cost 1/4 the price of active mutual funds<sup>2</sup>

### Tax efficient

Only 3% of iShares bond ETFs paid out a capital gain in 2018<sup>3</sup>

% of peers that the ETF has outperformed, based on total return in the last 5 years

| Ticker | % <sup>4</sup> | Morningstar Category (# of funds) <sup>4</sup> |
|--------|----------------|------------------------------------------------|
| IUSB   | 70%            | Inter. Bond (448)                              |
| EMB    | 84%            | EM Bond (194)                                  |
| FLOT   | 66%            | Ultrashort Bond (130)                          |

Cost comparison of ETF vs. its mutual fund peers

| Ticker | Cost |
|--------|------|
| IUSB   | 8%   |
| EMB    | 36%  |
| FLOT   | 40%  |

% of funds paying capital gains

| Year | ETFs | Mutual funds |
|------|------|--------------|
| 2018 | 3%   | 17%          |
| 2017 | 5%   | 12%          |
| 2016 | 8%   | 32%          |

## WHAT ROLE DO BONDS PLAY IN A PORTFOLIO?

### Diversify equities

**AGG** iShares Core U.S. Aggregate Bond ETF  
Exp. ratio: 0.05%\*

**IUSB** iShares Core Total USD Bond Market ETF  
Exp. ratio: 0.06%\*

**LQD** iShares iBoxx \$ Investment Grade Corporate Bond ETF  
Exp. ratio: 0.15%

### Generate income

**EMB** iShares J.P. Morgan USD Emerging Markets Bond ETF  
Exp. ratio: 0.39%

**PFF** iShares Preferred and Income Securities ETF  
Exp. ratio: 0.46%

**HYG** iShares iBoxx \$ High Yield Corporate Bond ETF  
Exp. ratio: 0.49%

### Put cash to work

**FLOT** iShares Floating Rate Bond ETF  
Exp. ratio: 0.20%

**NEAR** iShares Short Maturity Bond ETF (Active)  
Exp. ratio: 0.25%

**IGSB** iShares Short-Term Corporate Bond ETF  
Exp. ratio: 0.06%

\*Sources: BlackRock, Bloomberg as of 12/31/18. \*Net expense ratio for AGG and IUSB reflect contractual fee waivers in place until 6/30/26 and 2/29/2024, respectively. Gross expense ratio for AGG and IUSB are 0.06% and 0.07% respectively. **1** BlackRock calculation using fund performance rankings from Morningstar, as of 09/30/19. 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 bond ETFs have outperformed in each Morningstar category, weighted based on the number of funds in the Morningstar category. The funds outperformed 53%, 56% and 43% of peers on a 1, 5 and 10 year basis, respectively. Performance may be different for other time periods. **2** Morningstar as of 09/30/19. Comparison is between the Prospectus Net Expense Ratio for the average Fixed Income iShares ETF (0.19%) and the average Fixed Income Open-End Mutual Fund (0.88%) available in the U.S. ex money market funds. EMB, IUSB and FLOT costs compare the ETF’s net expense ratio to the average net expense ratios of the Open-End Mutual Funds in their respective Morningstar categories. In the Morningstar Open-End Intermediate Core-Plus Bond category the average net expense ratio is 0.80% vs 0.06% net expense ratio for IUSB. In the Morningstar Open-End Emerging Markets Bond category the average net expense ratio is 1.09% vs 0.39% net expense ratio for EMB. In the Morningstar Ultra Short Term Bond category the average net expense ratio is 0.50% vs 0.20% net expense ratio for FLOT. **3** Morningstar as of 12/31/18, Average number of fixed income mutual funds that paid a capital gain distribution each year within a universe of 6,674 funds. Universe includes all U.S. open ended mutual funds excluding money market funds, all share classes used. ETFs include all iShares Bond ETFs available each year. Past distributions are not indicative of future distributions. **4** Morningstar as of 09/30/19. Comparison made between the total return of EMB, FLOT and IUSB and the respective ETFs and mutual funds within the same Morningstar categories at period end. Total return represents changes to the NAV and accounts for distributions from the funds (excluding any applicable sales charges). IUSB outperformed 67% of peers (618 funds) in the Intermediate Core-Plus Bond category for the 1 year period. EMB outperformed 89% and 70% of peers (296 and 49 funds) in the Emerging Markets Bond category for the 1 and 10 year periods, respectively. FLOT outperformed 54% of peers (198 funds) in the Ultrashort Bond category for the 1 year period. Performance may be different for other time periods. **Past performance is no guarantee of future results.**

## MANY INVESTORS ARE GETTING STARTED WITH BOND ETF BLENDS

Combining AGG and LQD can help keep correlations low while potentially boosting return.

|                     | AGG   | Blended      |
|---------------------|-------|--------------|
| S&P 500 Correlation | -0.15 | <b>0.01</b>  |
| Return              | 2.88% | <b>3.61%</b> |
| Risk                | 3.22% | <b>3.89%</b> |

Diversify
Equities

**40%**  
LQD

**60%**  
AGG

Combining HYG, EMB and PFF can help sustain yields, potentially increase return and lower risk.

|        | Blended      |
|--------|--------------|
| Yield  | <b>4.58%</b> |
| Return | <b>4.59%</b> |
| Risk   | <b>4.18%</b> |

**40%**  
HYG

**30%**  
EMB

Generate
Income

**30%**  
PFF

Source: BlackRock as of 09/30/19. Risk and Return based on 3-year annualized return and standard deviation ending 09/30/19. Standard deviation measures how dispersed returns are around the average. A higher standard deviation indicates that returns are spread out over a larger range of values and thus, more volatile. Yield is represented by the weighted average of the 30-day SEC yield of the ETFs included in each portfolio as of 09/30/19. This information should not be relied upon as research, investment advice or a recommendation regarding the Funds or any security in particular. **This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future holdings or portfolio of any BlackRock client.**

| Standardized performance as of 09/30/19                    |                     |                             |                                        |                                                   | 1-year returns |           | 5-year returns |           | 10-year returns |           | Since inception |           |
|------------------------------------------------------------|---------------------|-----------------------------|----------------------------------------|---------------------------------------------------|----------------|-----------|----------------|-----------|-----------------|-----------|-----------------|-----------|
| Fund name                                                  | Fund inception date | Gross/net expense ratio (%) | 30-Day SEC yield (with/without waiver) | Contractual fee waiver expiration (if applicable) | NAV            | Mkt price | NAV            | Mkt price | NAV             | Mkt price | NAV             | Mkt price |
| iShares iBoxx \$ Investment Grade Corporate Bond ETF (LQD) | 7/22/02             | 0.15%                       | 2.94%                                  | —                                                 | 14.96%         | 15.03%    | 5.00%          | 5.01%     | 5.84%           | 5.74%     | 5.74%           | 5.73%     |
| iShares J.P. Morgan USD Emerging Markets Bond ETF (EMB)    | 12/17/07            | 0.39%                       | 4.33%                                  | —                                                 | 11.38%         | 11.33%    | 5.12%          | 5.07%     | 6.13%           | 5.94%     | 6.16%           | 6.15%     |
| iShares Core U.S. Aggregate Bond ETF (AGG)                 | 9/22/03             | 0.06%/0.05%                 | 2.26%/2.25%                            | 6/30/26                                           | 10.27%         | 10.35%    | 3.33%          | 3.32%     | 3.64%           | 3.59%     | 4.10%           | 4.10%     |
| iShares iBoxx \$ High Yield Corporate Bond ETF (HYG)       | 4/4/07              | 0.49%                       | 4.83%                                  | —                                                 | 6.42%          | 6.41%     | 4.40%          | 4.33%     | 6.66%           | 6.51%     | 5.54%           | 5.51%     |
| iShares U.S. Preferred Stock ETF (PFF)                     | 3/26/07             | 0.46%                       | 4.88%                                  | —                                                 | 6.84%          | 7.06%     | 4.80%          | 4.83%     | 6.75%           | 6.72%     | 4.36%           | 4.36%     |

**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 [iShares.com](http://iShares.com) or [blackrock.com](http://blackrock.com).**

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 may reflect 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 such 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. 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. There is no guarantee any fund will pay dividends.

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