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iShares by BlackRock

ETF ACADEMY

Introduction to ETFs

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

What is an ETF?

Exchange-traded funds (ETFs) are pooled investment funds that trade on regulated stock exchanges. Just like stocks, they can be bought and sold throughout the day. ETFs are designed to track a benchmark or index, such as the S&P 500 or FTSE 100 – a collection of stocks or other assets representing a specific market or sector. An ETF's value is determined by the underlying assets it holds.

ETFs hold portfolios that include many individual securities – such as stocks and bonds – allowing investors to own a diversified portfolio without buying each asset individually. By combining multiple holdings in a single wrapper, ETFs offer investors one-click diversification benefits and wide market access. A diversified portfolio may help to lower risk, including default risk – the risk that a lender, such as a company or government, will fail to make payment on its debt obligations – and asset depreciation, or the loss of value over time.

How do ETFs work?

The typical investment objective of an ETF is to provide investment results, before fees and expenses, that closely match the performance of the underlying index.

To deliver this objective, the ETF either invests directly in the holdings of the index (a physical ETF) or replicates the index performance by using derivatives, financial contracts that derive their value from underlying assets (a synthetic ETF). Synthetic ETFs can help provide access to more complex or specialised markets, where physical replication may be more difficult.

What are the potential benefits of ETFs?

The accessibility, transparency, liquidity and cost effectiveness of ETFs have made them a valuable tool for investors seeking to achieve both long-term and short-term investment goals.

Diversification: ETFs spread exposure across multiple stocks or bonds, through a single investment product

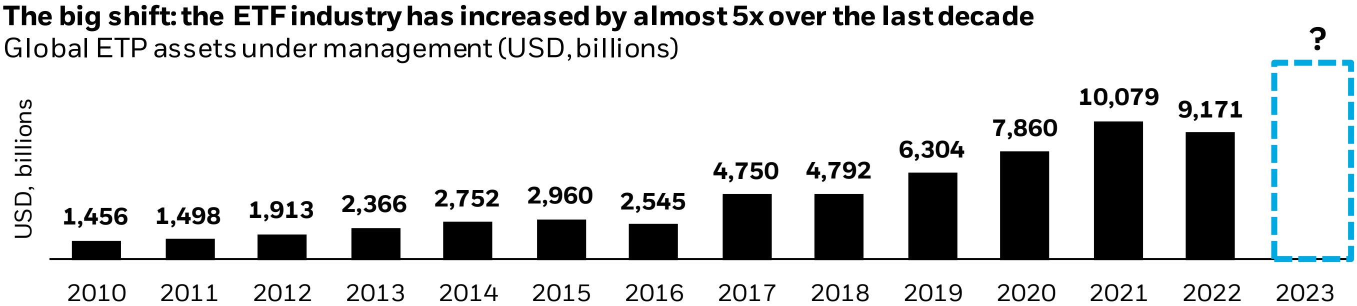
Accessibility: ETFs can be traded throughout the day, allowing investors to quickly enter and exit markets

Low cost: ETFs typically have lower fees than managed funds, providing more cost-effective access to markets

Tax benefits: Compared to managed funds, ETFs offer a range of tax benefits including reduced capital gains tax

The big shift: the ETF industry has increased by almost 5x over the last decade

Global ETP assets under management (USD, billions)



Source: iShares Global Business Intelligence, as of 20 February 2023.

A broad range of exposures

As the ETF industry has matured, we've seen the range of products available to investors expand significantly – and grow in sophistication. ETFs today provide access to a wide range of markets, including some which may have been previously inaccessible to investors.

Investing in ETFs can open the door to a whole world of investment options, covering a broad range of asset classes, sectors, currencies, commodities and geographies.

Equity ETFs

Equity ETFs invest primarily in stocks or equities, and are designed to track individual equity market indices, such as the S&P 500. Equity ETFs span many categories, from the equity markets of specific regions or countries, to individual sectors like healthcare and technology, or style factors (groups of companies that tend to have similar characteristics and performance).

Bond ETFs

Bond or fixed income ETFs invest primarily in bonds issued by governments or corporations with a view to track indices, such as the Bloomberg Global Aggregate Bond Index. Portfolio characteristics can differ with varying criteria such as issuer credit rating – how likely the issuer is to be able to meet their debt obligations, the bond's maturity date, and its yield. Bond ETFs typically hold a diverse collection of bonds, which means there is lower exposure to the investment risk of individual bond defaults.

Exchange-traded commodities (ETCs)

ETCs are similar to ETFs, but instead of holding a diversified portfolio of stocks or bonds, they hold a collection of commodities, such as precious metals or oil. ETCs enable investors to gain exposure to commodities without having to physically own or store the commodities themselves, and may provide additional diversification benefits, much like an ETF.

Building sustainability into portfolios with ETFs

As the world transitions towards a lower-carbon economy, many investors are interested in integrating environmental, social, and governance (ESG) considerations in their portfolios.

ETFs stand out in this space, leveraging their simple, low-cost structure to align with investors' sustainable priorities. For example, standard indices such as the S&P 500 can be screened to exclude companies that fall below certain ESG thresholds, such as those exposed to oil and gas or tobacco. The new 'screened' indices are then tracked by an ETF, which aims to provide similar performance to the original index. The stringency of the screening varies across different sustainable methodologies, meaning investors can select an option that aligns with their ESG values and investment goals.

Why iShares?

iShares offers a global line up of 900+ ETFs, more than any other provider. So whether you're dipping your toes into ETFs or fine-tuning your portfolio, our ETFs and index capabilities provide hundreds of choices designed to help you build an investment portfolio that fits your needs.

Reach out to your local iShares representative for more information.

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Risk Warnings

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

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