





# Smart Beta ETFs by iShares

*Solutions for Clients Looking for More*

October 2015

## Alpha vs. Beta: Kicking off with 2 Definitions

Beta

$\beta$

Index investing

Tracks a benchmark, usually market cap weighted

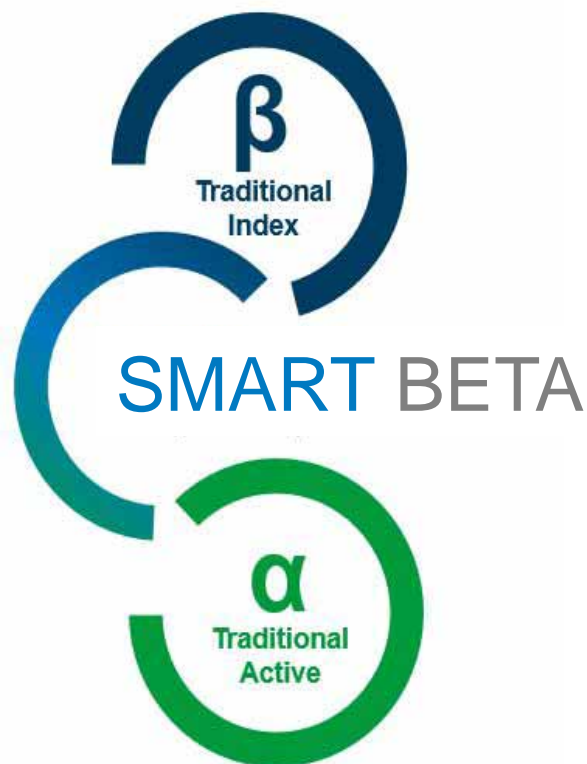
Alpha

$\alpha$

Active portfolio management

Seeks excess return above benchmark

# Smart Beta – A Different Approach to Investing













Smart Beta strategies sit at the intersection of active and index investing, incorporating elements of both.

- Generally low cost and transparent like index strategies\*
- Can be a source of incremental return or a way to manage risk like traditional active funds
- Can potentially help achieve a desired outcome such as dampening the impact of market volatility or pursuing higher income

\*Smart beta ETFs have an added element of transparency in that holdings are disclosed daily, unlike active mutual funds that typically display holdings only quarterly.

# We've Invested for Decades by Market Cap – To Our Benefit

## Constituents of the S&P 500\*

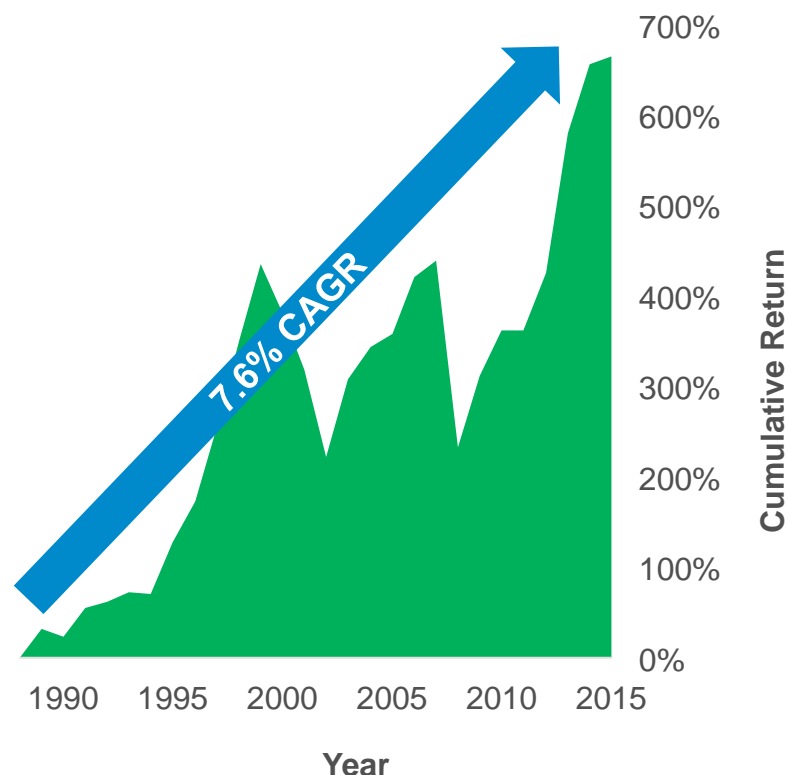
	Apple	3.6%
	Microsoft	2.1%
	Exxon	1.9%
	General Electric	1.6%
	Johnson & Johnson	1.5%
	Berkshire Hathaway	1.4%
	Wells Fargo	1.4%
	JPMorgan Chase	1.3%
	Facebook	1.2%
	Amazon	1.2%

Next 490 Stocks

82.8%

## S&P 500 Performance\*\*

Past 25 years -- 1989 to 2014



\*Source: Bloomberg as of 9/30/15. Allocations are subject to change.

\*\*Source: S&P Dow Jones Indices. S&P 500 Performance based on total annual return between 1/1/1989 – 12/31/2014. 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.

## But What if Investors Are Looking for More?

“I want less volatility”

“I want more income”

“I’m looking to enhance returns”

# How can Investors Use Smart Beta ETFs?

**Seek Less Volatility**

## Minimum Volatility ETFs

**USMV** **EEMV** **EFAV**

Seek reduced market volatility to stay invested

**Seek Income**

## Dividend ETFs

**HDV** **IDV** **DGRO**

Invest in dividend payers or growers to pursue income

**Seek to Enhance Returns**

## FactorSelect ETFs

**LRGF** **INTF**

Seek to enhance returns with ideas that drive equity performance

# Why BlackRock for Smart Beta?

## Leader

Over \$125 billion in Smart Beta products and strategies globally\*  
More than 30 iShares Smart Beta ETFs with over \$50 billion in assets

## Expert

30+ years of experience in Smart Beta investing backed by rigorous research  
Proprietary Aladdin® platform drives risk, return and cost evaluations

## Partner

Strive to deliver the outcomes investors need with low cost and transparency  
Partner with advisors to provide guidance on integrating Smart Beta ETFs into client portfolios

\*Source: BlackRock, as of 9/30/15



# Minimum Volatility

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USMV, EEMV, EFAV

**USMV**

iShares MSCI USA  
Minimum Volatility ETF

**EEMV**

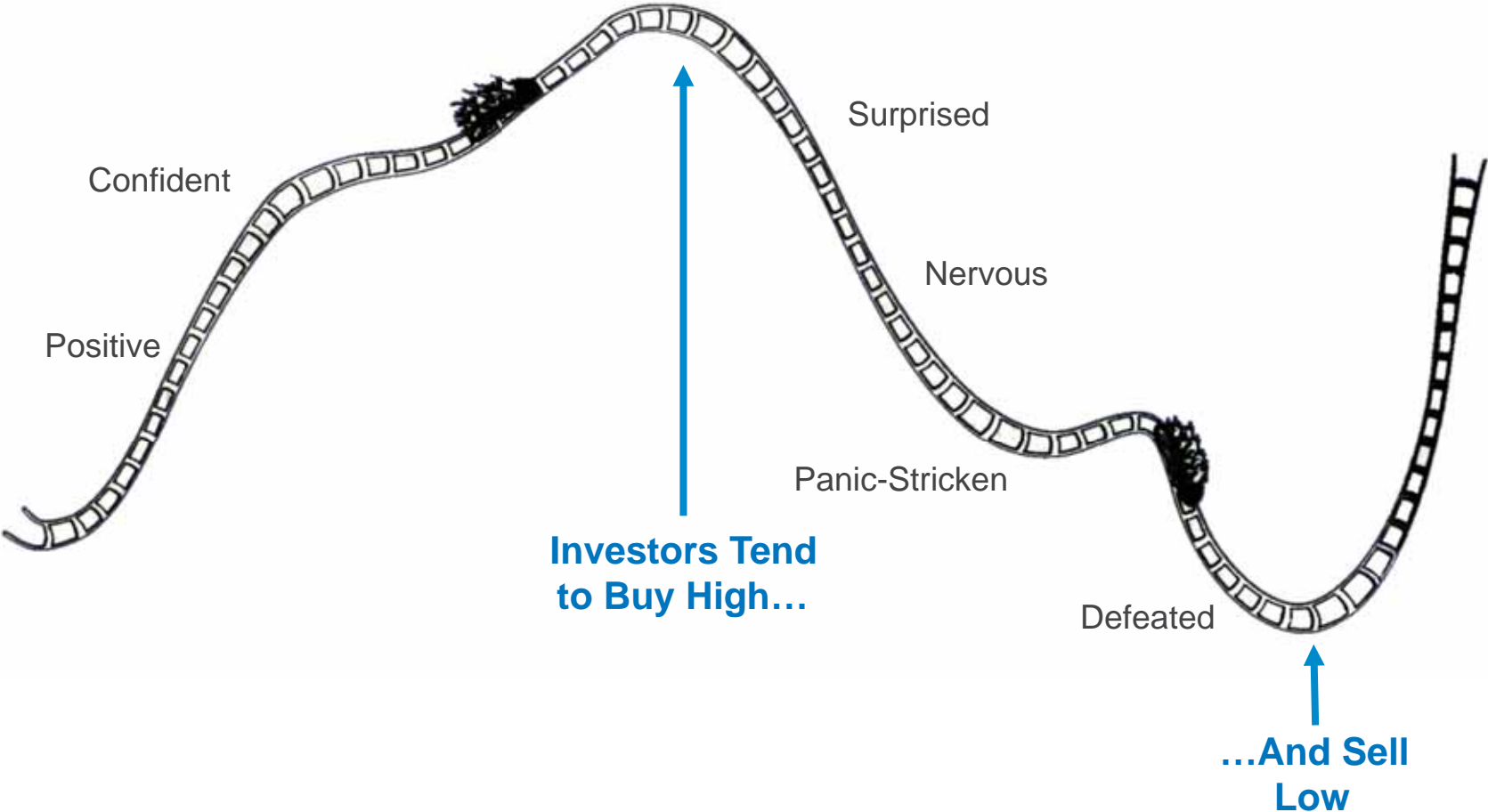
iShares MSCI Emerging Markets  
Minimum Volatility ETF

**EFAV**

iShares MSCI EAFE  
Minimum Volatility ETF

# Emotions Drive Investment Decisions...

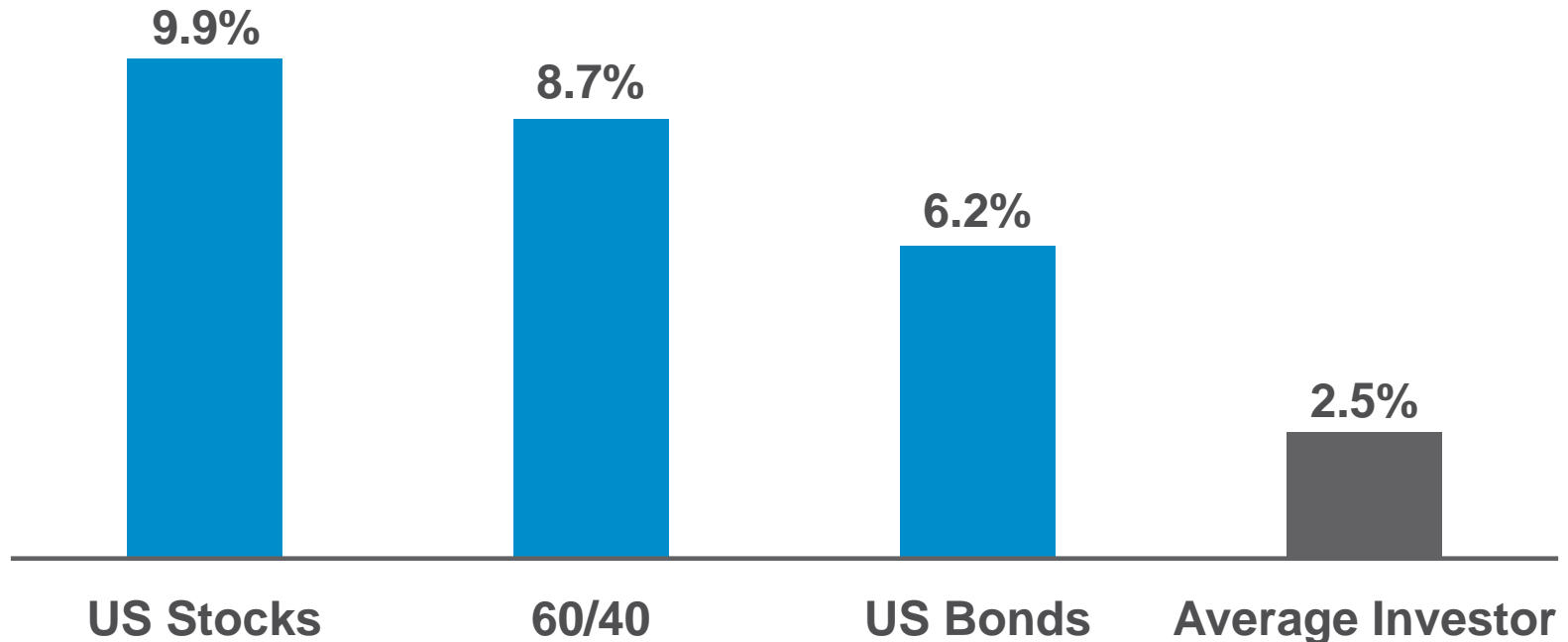
## Riding the Ups and Downs of the Market



Hypothetical example.

## ...Resulting in Lackluster Performance

### Annualized Returns by Asset Class (1995-2014)



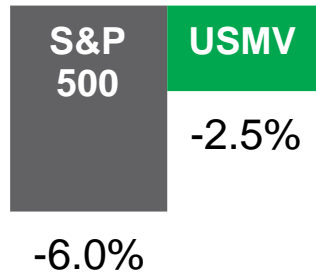
Sources: BlackRock; Morningstar; Informa Investment Solutions; Dalbar. Returns based on performance between 1/1/1995-12/31/2014. Asset classes represented by the following indexes: US Stocks = S&P 500, 60/40 = balanced portfolio with 60% invested in the S&P 500 Index and 40% invested in the Barclays U.S. Aggregate Bond Index and rebalanced annually, US Bonds = Barclays U.S. Aggregate Bond Index, Average Investor = Dalbar's average asset allocation investor return, which uses data from the Investment Company Institute (ICI), Standard & Poor's and Barclays Index Products to compare mutual fund investor returns to an appropriate set of benchmarks. The study utilizes mutual fund sales, redemptions and exchanges each month as the measure of investor behavior. These behaviors reflect the "average investor." Based on this behavior, the analysis calculates the "average investor return" for various periods. **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.**

# Max Drawdown – Worst Month for Benchmarks Since Inception

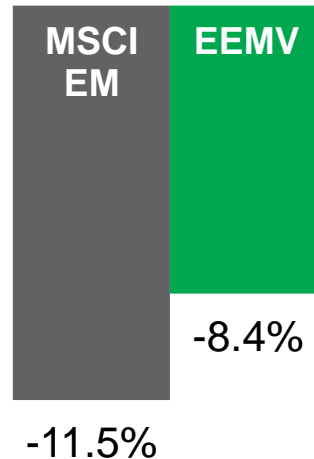
May 2012

Worst Month For Market Benchmarks Since Inception

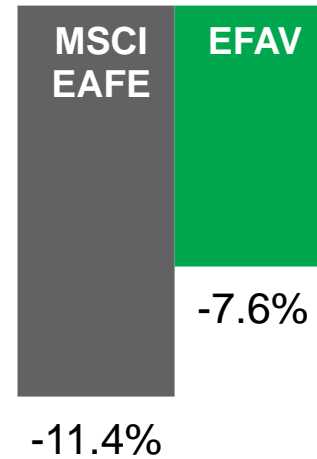
## USMV United States



## EEMV Emerging Markets



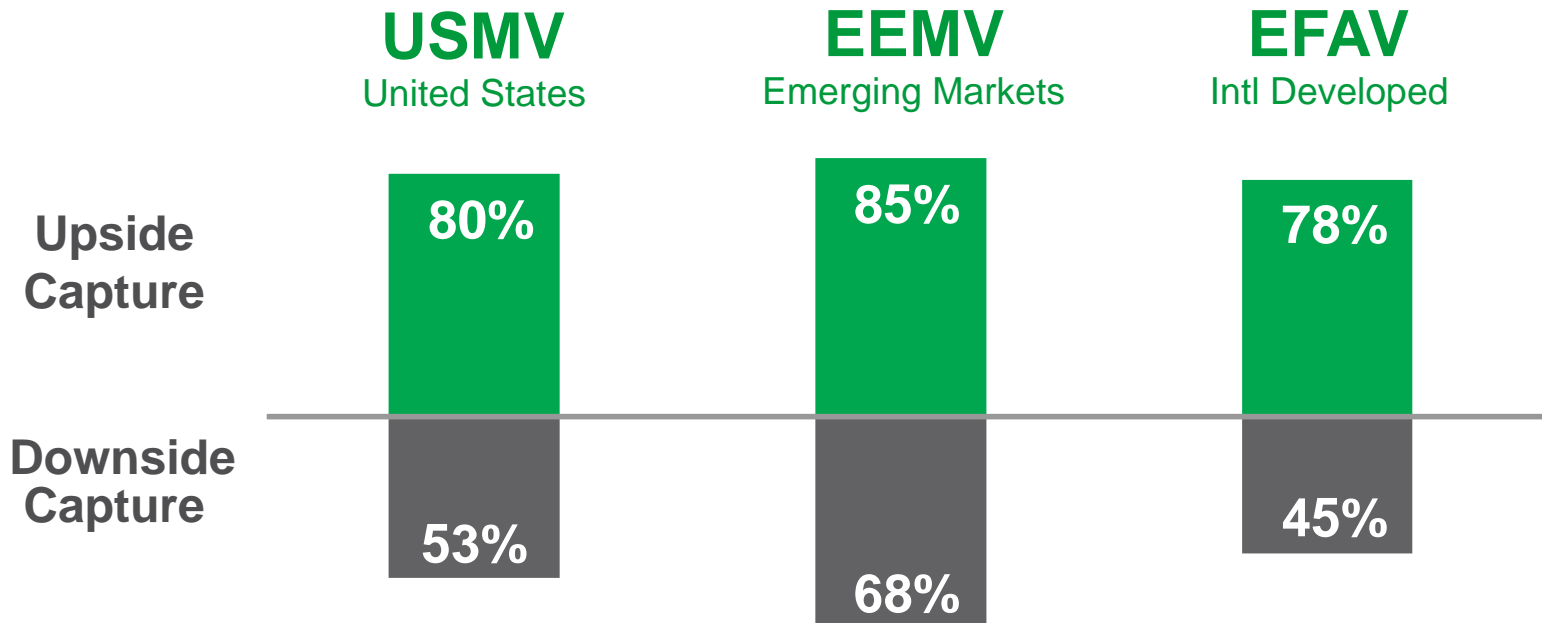
## EFAV Intl Developed



Source: Morningstar as of 9/30/15 based on performance from 5/1/12-5/31/12. S&P 500, MSCI EM and MSCI EAFE returns represented by IVV, EEM and EFA 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 end of this document.**

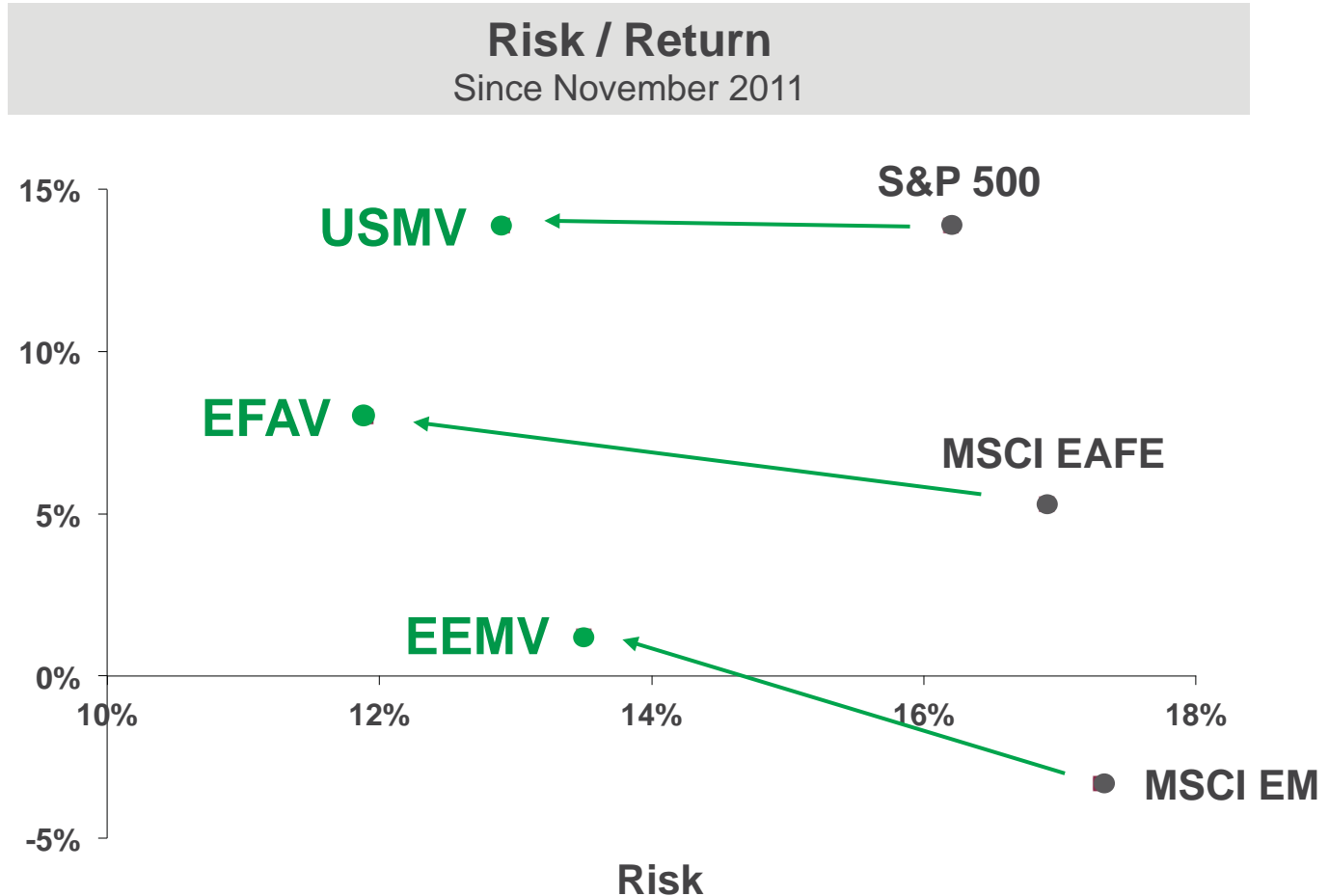
# Min Vol ETFs Have Captured More Upside than Downside

## Upside/Downside Capture Since November 2011



Source: Morningstar. Based on respective iShares Minimum Volatility ETF monthly performance between 11/1/11–9/30/15. **Past performance does not guarantee future results. For standardized performance, please see the end of this document.**

# Less Risk While Seeking Similar Returns as the Broad Market



Source: Morningstar as of 10/16/15. Based on performance between 11/1/11 - 9/30/15. Annualized risk represented by standard deviation which 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. **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 end of this document.**

## Less Risk While Seeking Similar Returns as the Broad Market

## Return and Sharpe Ratio

Since November 2011

As of 9/30/15	Return				Sharpe Ratio			
	YTD	1 year	3 year	Since inception (11/1/2011)	YTD	1 year	3 year	Since inception (11/1/2011)
<b>USMV</b>	-0.72%	7.17%	12.44%	13.91%	-0.07	0.77	1.36	1.62
<b>S&amp;P 500 Index</b>	-5.29%	-0.61%	12.40%	13.94%	-0.55	-0.01	1.25	1.38
<b>EFAV</b>	1.81%	1.86%	7.54%	7.97%	0.26	0.23	0.79	0.79
<b>MSCI EAFE Index</b>	-5.28%	-8.66%	5.63%	5.27%	-0.42	-0.63	0.51	0.44
<b>EEMV</b>	-12.02%	-15.02%	-2.56%	1.22%	-1.16	-1.26	-0.18	0.15
<b>MSCI EM Index</b>	-15.47%	-19.28%	-5.27%	-3.27%	-1.19	-1.29	-0.33	-0.14

Source: MPI Stylus Pro, Morningstar Direct. Data as of 9/30/15 and reflects annualized monthly 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 end of this document.



# Why Your Min Vol Approach Matters

## Approach #1

Buy the lowest volatility stocks in the S&P 500 on a backward looking basis

Volatility of Individual Stocks



## Basket of Low Vol Stocks w/ Sector Bets\*



## Approach #2

Combine indexing expertise and risk management to build optimized index

Volatility of Individual Stocks

Correlations Across Stocks

Constrain to Index Weights (Sector, Cap, Country)



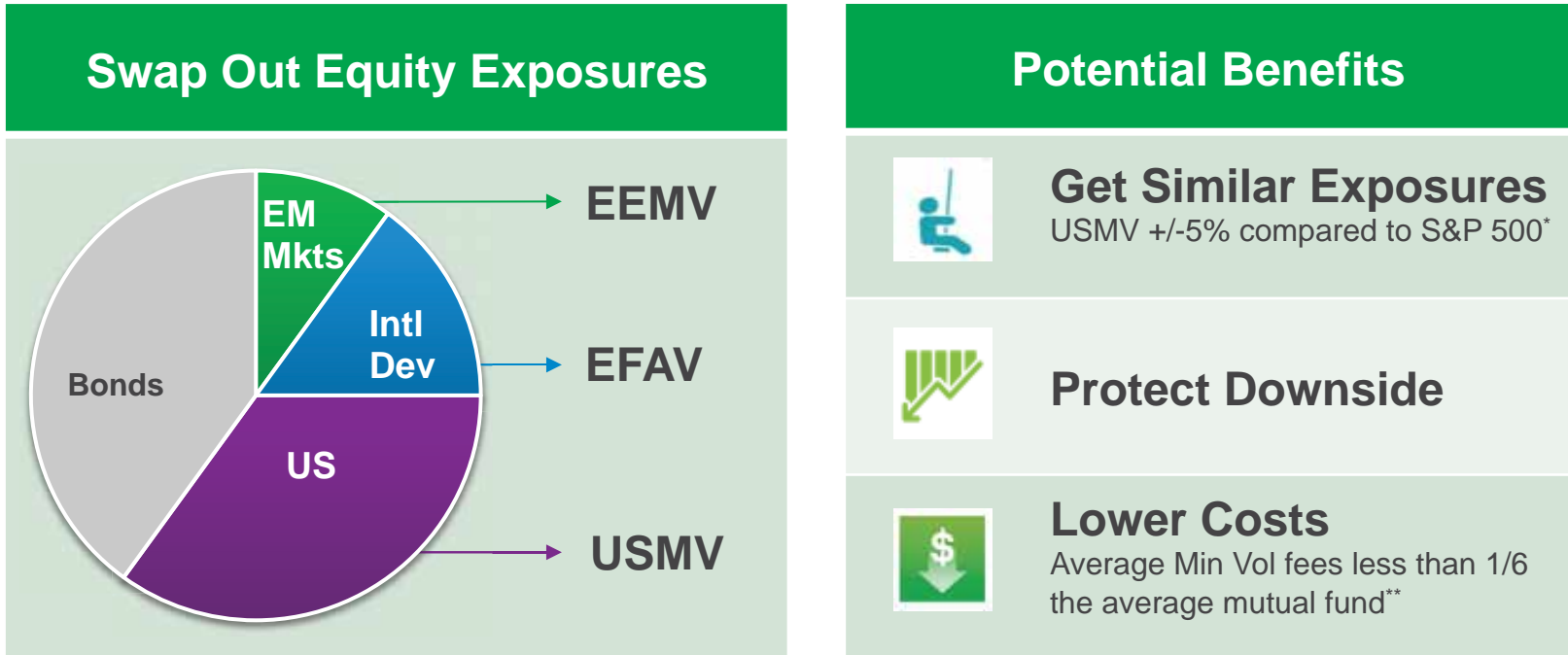
## Min Vol Portfolio in line with S&P\*\*



\*Source: SPDJI Research. Based on sector weightings between S&P 500 Low Volatility Index and S&P 500 Index as of 9/30/2015.

\*\*Based on sector weightings between USMV and the S&P 500. Source: Bloomberg, BlackRock Aladdin, as of 9/30/15. **Holdings are subject to change.**

# Use Case 1: Replace Equity Exposures with iShares Min Vol ETFs



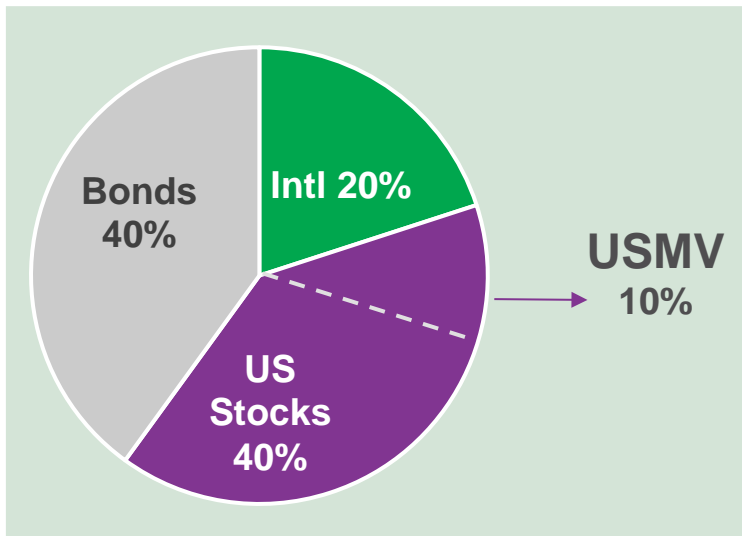
For illustrative purposes only.

\*Based on sector weightings between USMV and the S&P 500. Source: Bloomberg, BlackRock Aladdin, as of 9/30/15. **Holdings are subject to change.** \*\*Source: Morningstar. Average mutual fund fees represent the average net expense ratio of mutual funds in each respective equity exposure (Emerging Markets, International Developed and US Large Cap Blend) based on the funds' most recent annual report. International expense ratios determined as of 9/30/15. Average Min Vol fees represent the net expense ratios for USMV, EFAV and EEMV. Portfolio allocations are for reference purposes solely and should not be relied upon as investment advice or a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy.

## Use Case 2: USMV Alongside Your Individual Stock Portfolio

### For Advisors Who Manage Individual Stock Portfolios

#### Create Min Vol Buffer



For illustrative purposes only.

#### Potential Benefits



##### Diversify

160+ stocks through USMV\*



##### Protect Downside



##### Manage Cash Flows

Use liquid ETF for cash flow when clients add/withdraw assets

\*Source: BlackRock as of 9/30/15. Portfolio allocations are for reference purposes solely and should not be relied upon as investment advice or a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy.

# Dividends

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HDV, IDV, DGRO

Income

HDV

iShares Core High Dividend ETF

IDV

iShares International Select Dividend ETF

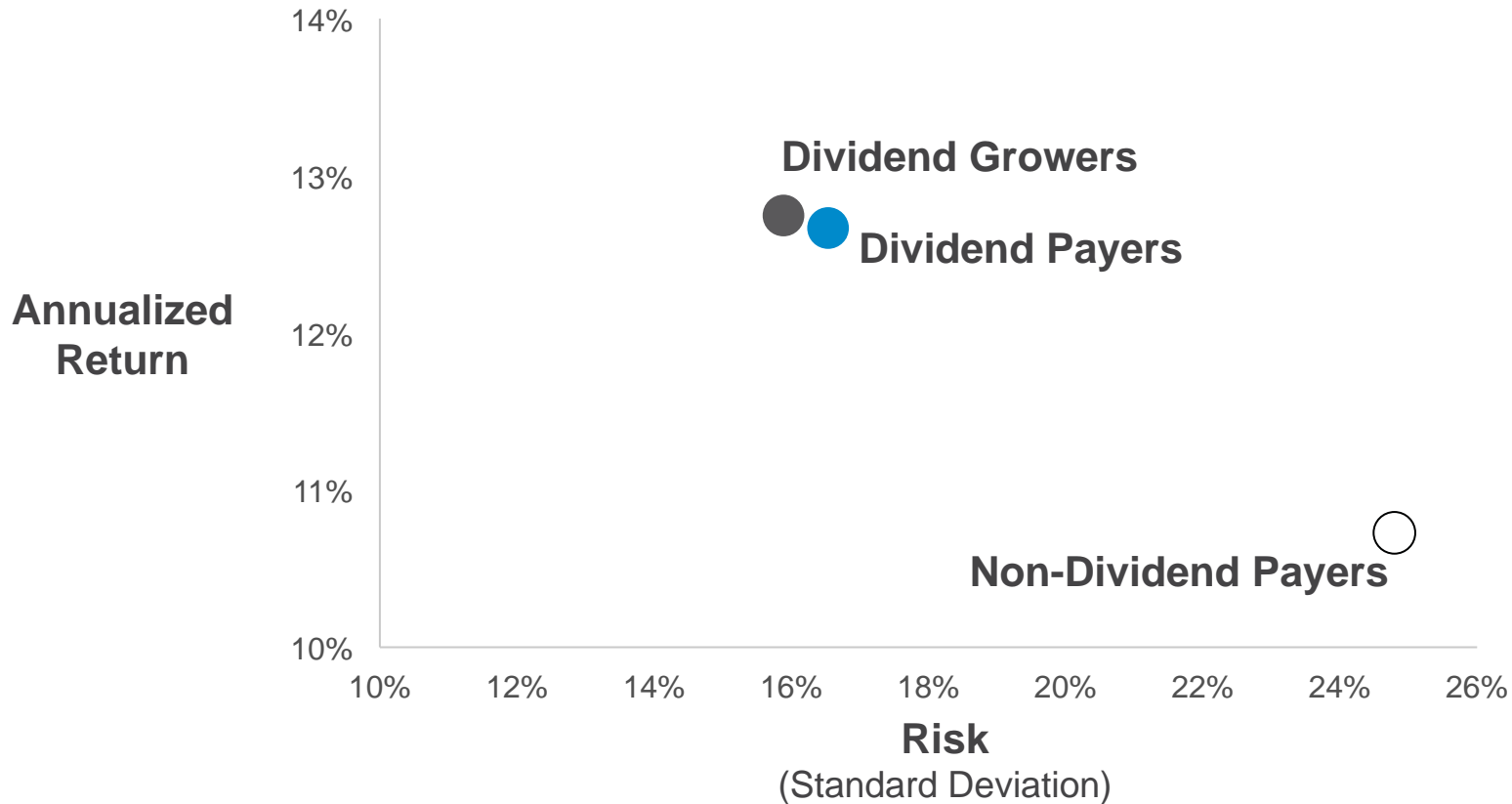
Growth

DGRO

iShares Core Dividend Growth ETF

# Dividend Stocks Have Delivered Beneficial Risk/Return Over Time

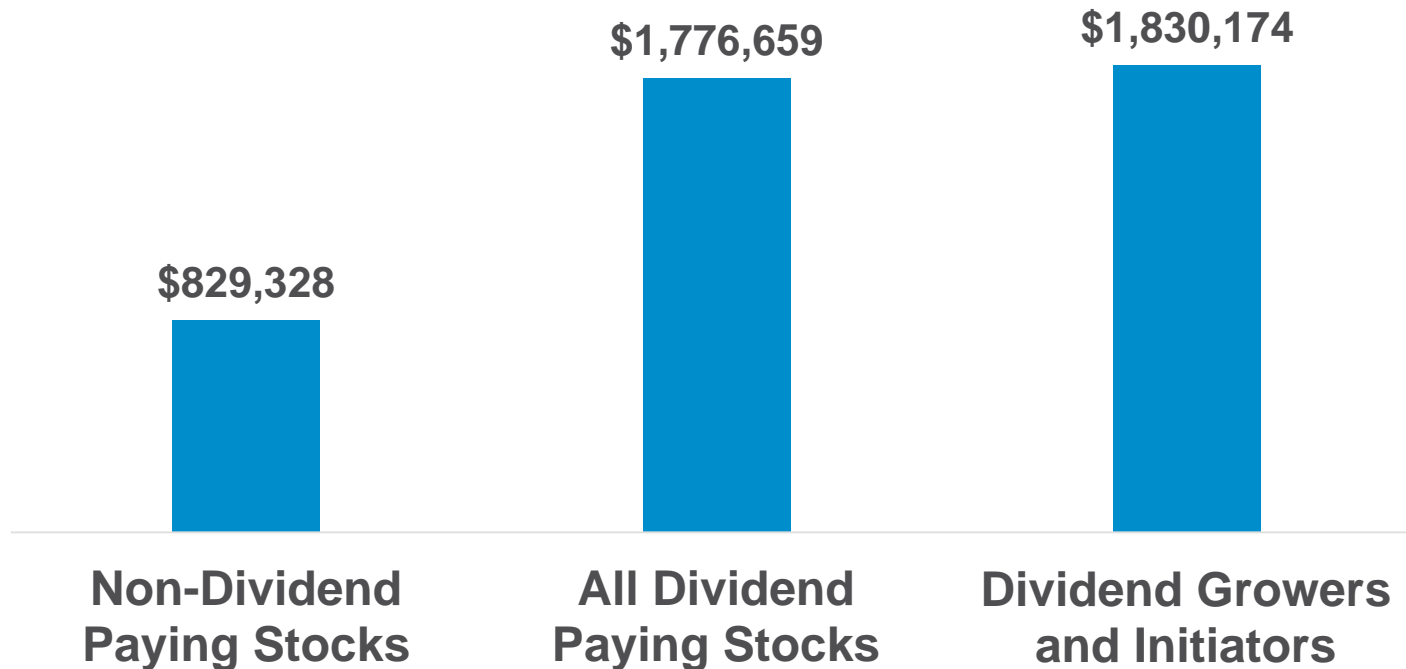
## S&P Attribution by Dividend Policy 1972-2015



Source: Ned Davis Research based on data between 3/31/72-9/30/15. Returns are based on monthly equal-weighted geometric average of total returns of S&P 500 component stocks, with components reconstituted monthly. **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.**

# Dividend Strategies Have Rewarded Investors over Time

## Payers and Growers Have Rewarded Investors Value of Hypothetical \$10,000 Investment (1972-2015)



Source: Ned Davis Research based on data between 3/31/72-9/30/15 and represents stocks within the S&P 500 Index. The chart reflects the growth of a hypothetical \$10,000 investment in equal-weighted indices based on each respective constituent's dividend policy and each index is reconstituted monthly. This analysis is based on total returns and does not include fees. Dividend-paying stocks are defined as companies that indicated it will be paying a dividend within the year. A stock is classified as a non-payer if the stock's indicated annual dividend is zero. Dividend Growers and Initiators include stocks that increased their dividend anytime in the last 12 months. Once an increase occurs, it remains classified as a grower for 12 months or until another change in dividend policy. Prior to July 2000, the indicated annual dividends were updated on a quarterly basis. Since July 2000, the indicated annual dividends are updated on a daily basis, so the most up-to-date information is used. **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.**

# iShares Dividend Funds – Choose Among Growth and Quality Options

	Expense Ratio*	30-Day SEC Yield*	5-Yr Dividend Growth Rate**
HDV	12 bps	4.0%	6.6%
IDV	50 bps	5.2%	4.0%
DGRO	12 bps	2.7%	9.9%

\*Source: BlackRock as of 9/30/15.

\*\*Source: SPDJI Research, Morningstar Indexes as of 10/19/15 based on annual index dividend per share (DPS) growth between 9/30/10-9/30/15. Annual DPS calculated as respective month-end dividend yield x corresponding index level. [Click here](#) for Prospectus.

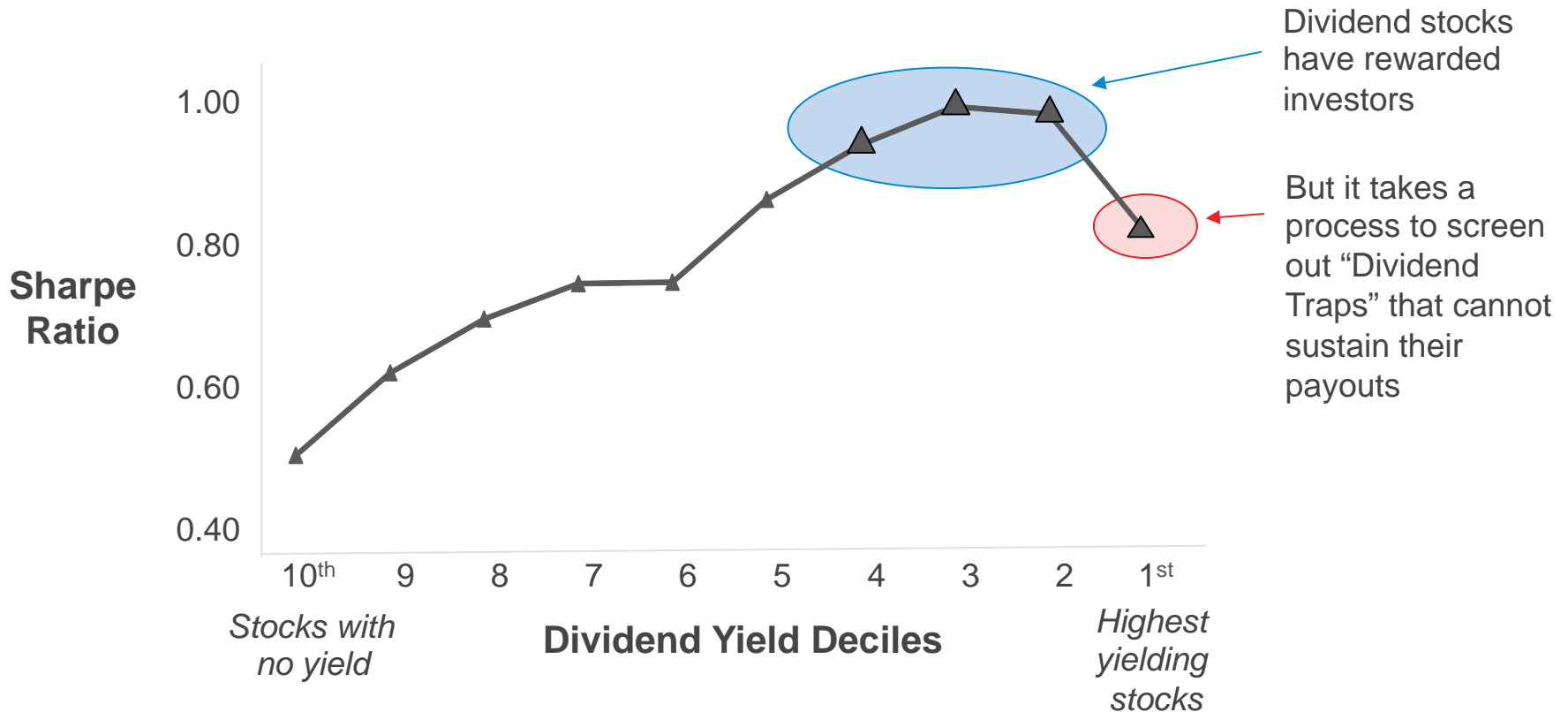
Past performance does not guarantee future results. For standardized performance, please see the end of this document.



# Building a Dividend Weighted Portfolio – Beware of the “Dividend Trap”

## Dividend Investing – It Takes a Disciplined Process

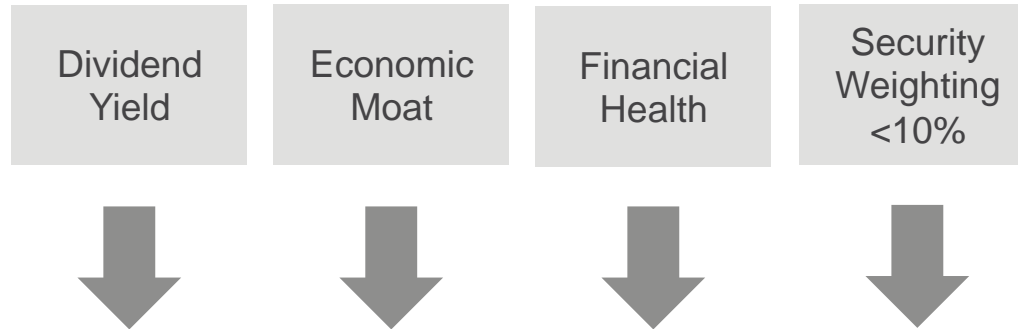
Russell 1000 – Sharpe Ratio by Dividend Yield Decile – 1976 through 2014



Source: BlackRock, data as of December 31, 2014. Russell 1000 was rebalanced monthly by dividend yield decile. Past performance does not guarantee future results. Equal Weighted Deciles

## Universe of US Stocks

Identify high dividend paying US companies with sustainable business models and good financial health



HDV

## Dividend Weighted Portfolio – Quality Focus



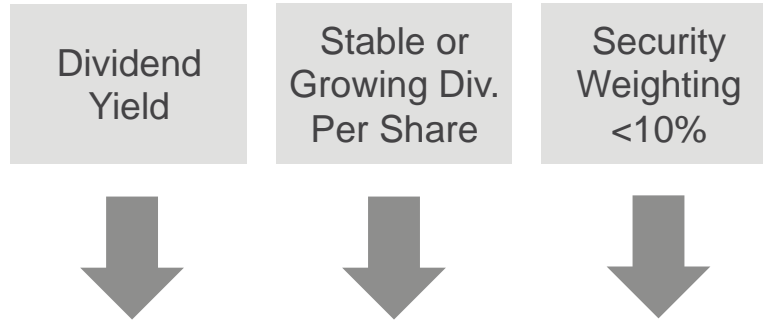
**75**  
High-Quality  
U.S.  
Companies

EXXON MOBIL CORP	9.4%
AT&T INC	8.1%
CHEVRON CORP	6.6%
JOHNSON & JOHNSON	6.0%
VERIZON COMMUNICATIONS	5.9%
PROCTER & GAMBLE	5.3%
PFIZER INC	5.0%
PHILIP MORRIS	4.7%
COCA-COLA	3.8%
INTEL CORPORATION CORP	3.5%

Source: BlackRock as of 9/30/15. Holdings are subject to change.

## Universe of International Stocks

Identify companies in Europe, Pacific, Asia, and Canada that have paid dividends for the last 3 years



IDV

### Dividend Weighted Portfolio – Quality Focus

# 100

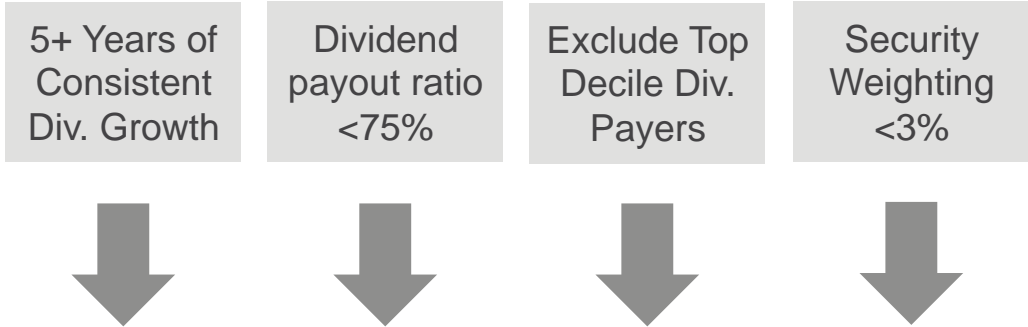
High-Quality International Companies

BANK OF AUSTRALIA	4.8%
WOODSIDE PETROLEUM LTD	3.7%
ASTRAZENECA PLC	3.4%
ROYAL DUTCH SHELL	3.3%
RIO TINTO LTD	3.2%
BRITISH AMERICAN TOBACCO	3.0%
ENI	2.9%
WESFARMERS LTD	2.4%
PROVIDENT FINANCIAL PLC	2.4%
NATIONAL AUSTRALIA BANK	2.3%

Source: BlackRock; S&P Dow Jones Index Data Research as of 9/30/15. Holdings are subject to change.

## Universe of US Stocks

Identify US companies that are growing dividends



DGRO

### Dividend Weighted Portfolio – Growth Focus

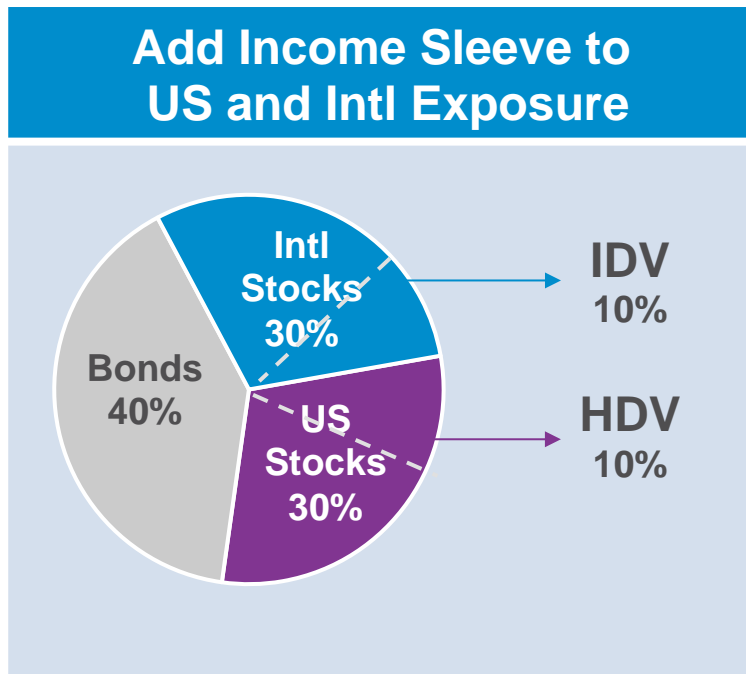
# 250+

U.S. Companies  
With Growing  
Dividends

GENERAL ELECTRIC	3.3%
EXXON MOBIL CORP	3.3%
MICROSOFT CORP	3.1%
PROCTER & GAMBLE	3.0%
COCA-COLA	2.9%
JOHNSON & JOHNSON	2.9%
PFIZER INC	2.9%
IBM	2.8%
PEPSICO INC	2.6%
MCDONALDS CORP	2.0%




Source: BlackRock; Morningstar as of 9/30/15. Holdings are subject to change.

# Use Case: Create Income Sleeve in US and International Allocations



For illustrative purposes only.

### Potential Benefits

-  **Similar Exposure**
-  **Higher Yield Potential\***  
Intl (EFA) = 2.48% → IDV = 5.16%  
US (IVV) = 2.16% → HDV = 4.01%
-  **Dampen Volatility**

\*Source: BlackRock as of 9/30/15. Portfolio allocations are for reference purposes solely and should not be relied upon as investment advice or a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. **Past performance does not guarantee future results. For standardized performance, please see the end of this document.**

# Factors

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LRGF, INTF

## Factors are Like the DNA of a Stock or Bond

Characteristics that help explain its behavior over time

### Quality

High earnings quality stocks



### Momentum

Stocks on an upswing

### Value

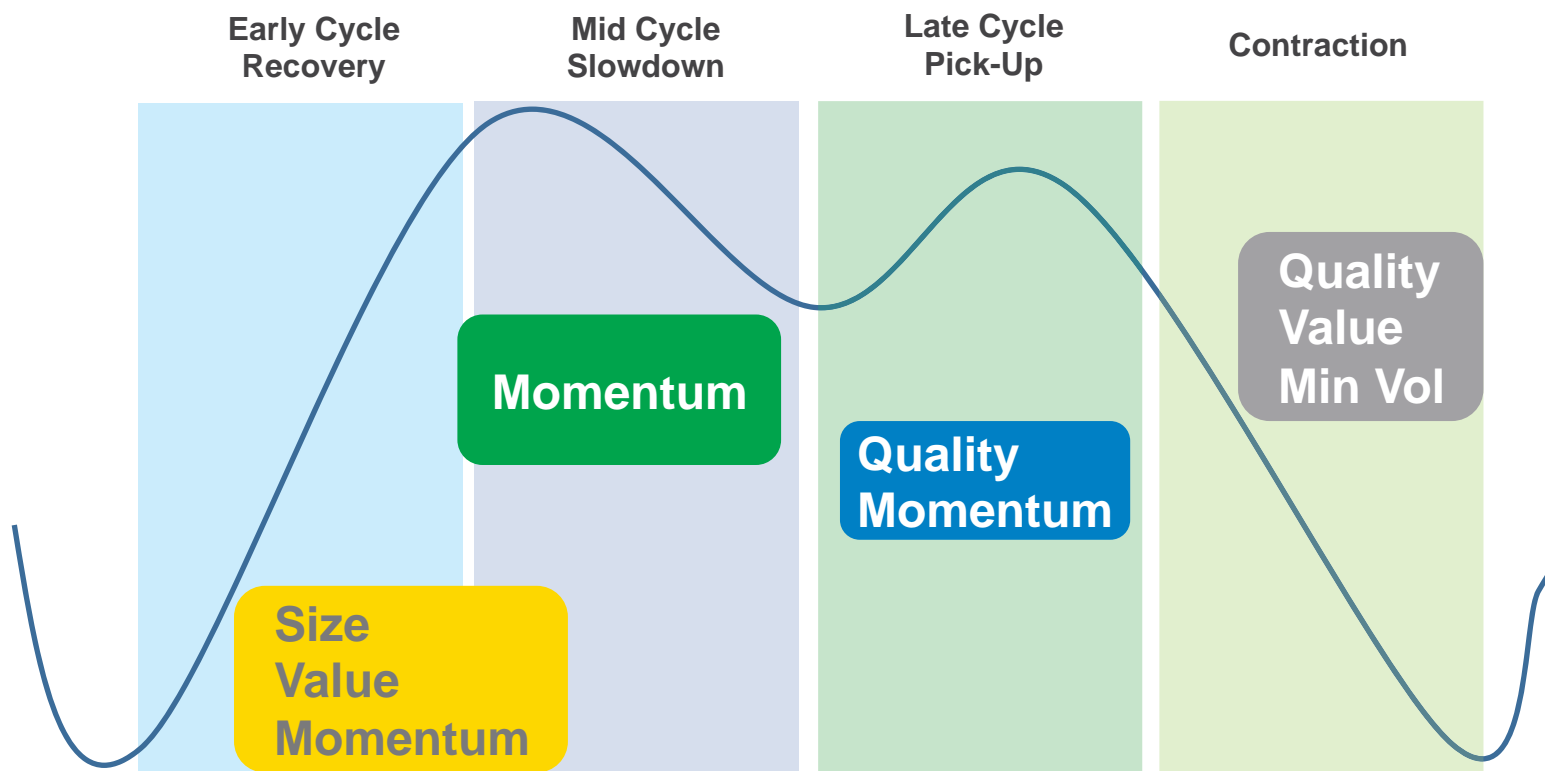
Inexpensive stocks

### Size

Smaller companies

# Potential Periods of Factor Outperformance Throughout the Market Cycle

## Typical Behavior of Global Market Cycle



For illustrative purposes only.



Chart Your Own Course with Single Factor ETFs

*Looking for companies with historically stable earnings and strong balance sheets?*

**QUAL**

iShares MSCI USA Quality Factor ETF

*Looking for companies with low P/E and P/B ratios?*

**VLUE**

iShares MSCI USA Value Factor ETF

*Looking for smaller sized companies that may be underpriced?*

**SIZE**

iShares MSCI USA Size Factor ETF

*Looking for companies that are on a stock price upswing?*

**MTUM**

iShares MSCI USA Momentum Factor ETF

## Invest in a Diversified Long Term Allocation with FactorSelect

*Optimized to provide exposure to four factors that have historically outperformed the broad market. With similar sector, country and total risk characteristics as their respective broad market benchmarks, FactorSelect ETFs may be appropriate for long-term allocations.*

LRGF

iShares® FactorSelect™  
MSCI USA ETF

INTF

iShares® FactorSelect™  
MSCI International ETF



# Standardized Performance as of 9/30/15

All Data as of 9/30/15

Fund Name	Fund Inception Date	Gross Expense Ratio	30-Day SEC Yield (With / Without Waiver)	Contractual Fee Waiver Expiration (If Applicable)	1-Year Returns		5-Year Returns		10-Year Returns		Since Inception	
					NAV	Mkt Price	NAV	Mkt Price	NAV	Mkt Price	NAV	Mkt Price
iShares MSCI EAFE ETF (EFA)	8/14/2001	0.33%	2.48%	--	-8.73%	-8.18%	3.87%	4.02%	2.87%	2.89%	4.63%	4.66%
iShares MSCI EAFE Minimum Volatility ETF (EFAV)	10/18/2011	0.33%	2.72% / 2.49%	November 30, 2015	1.86%	2.47%	--	--	--	--	8.52%	8.61%
iShares MSCI Emerging Markets ETF (EEM)	4/7/2003	0.68%	2.07%	--	-19.78%	-19.39%	-4.17%	-4.18%	3.40%	3.36%	10.71%	10.71%
iShares MSCI Emerging Markets Minimum Volatility ETF (EEMV)	10/18/2011	0.67%	2.70% / 2.17%	December 31, 2015	-15.02%	-14.58%	--	--	--	--	2.57%	2.69%
iShares MSCI USA Minimum Volatility ETF (USMV)	10/18/2011	0.15%	2.32%	--	7.17%	7.09%	--	--	--	--	14.26%	14.25%
iShares Core S&P 500 ETF (IVV)	5/15/2000	0.07%	2.16%	--	-0.66%	-0.73%	13.26%	13.25%	6.74%	6.73%	3.75%	3.74%
iShares Core U.S. Aggregate Bond ETF (AGG)	9/22/2003	0.09%	1.99% / 1.98%	June 30, 2016	2.95%	2.89%	2.99%	2.95%	4.48%	4.43%	4.33%	4.32%
iShares International Select Dividend ETF (IDV)	6/11/2007	0.50%	5.16%	--	-17.83%	-17.66%	2.57%	2.52%	--	--	-1.50%	-1.51%
iShares Core Dividend Growth ETF (DGRO)	6/10/2014	0.12%	2.70%	--	-0.56%	-0.64%	--	--	--	--	0.11%	0.11%
iShares Core High Dividend ETF (HDV)	3/29/2011	0.12%	4.01%	--	-3.87%	-3.95%	--	--	--	--	11.02%	11.01%

Source: BlackRock as of 9/30/15.

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

## Disclosures

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](http://www.iShares.com) or [www.blackrock.com](http://www.blackrock.com). Read the prospectus carefully before investing.

### Investing involves risk, including possible loss of principal.

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 and in concentrations of single countries. 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 is no guarantee that any fund will pay dividends.

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.

The strategies discussed are strictly for illustrative and educational purposes and should not be construed as a recommendation to purchase or sell, or an offer to sell or a solicitation of an offer to buy any security. 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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4. Once you are logged in to your CE Center account, SCROLL TO THE BOTTOM OF THE PAGE to find the list of CE exams and webcasts we offer. (Please read the important information on that page regarding the CE reporting process.)
5. Click on the webcast you are interested in and complete the short questionnaire and print the “Certificate Of Completion” page for your records.
6. The webcast credit will be reported by *Financial Advisor* magazine the first week of the new month for the previous month.
7. Allow 10 business days for the credit to be posted on your account.

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