

ETFs and their Place in the 401(k) Market



— [ LET'S BUILD A BETTER INVESTMENT WORLD ] —

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**Agenda**

- Unique benefits of ETFs
- Why ETFs in 401(k)?
- How does it work?
- How are advisors using ETFs?
- What's next?

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AN INTRODUCTION TO ISHARES

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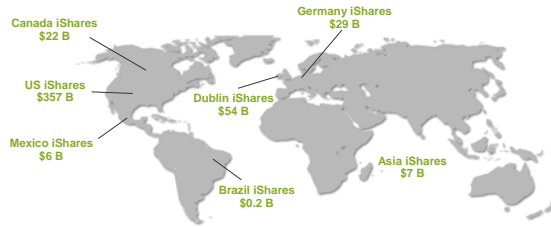
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## The BlackRock - iShares family of funds

- BlackRock – Largest asset manager with \$3.35T in assets
- iShares Largest ETF manager with more than \$500 billion in assets
- iShares distribution to over 150 thousand advisors and institutions



Source: BlackRock. As of 12/31/09. **- For Financial Professional Use Only – Not for Public Distribution -**

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## Know the Differences

	iShares ETFs	Active Mutual Funds
<b>Strategy</b>	iShares ETFs seek to track a market index, before fees and expenses	Most mutual funds are actively managed, seeking to outperform market indexes
<b>Trading</b>	Trade on exchanges intraday at market price, which may be greater or less than its NAV	Accessed directly through the fund company or through a select broker. Pricing generally occurs once a day.
<b>Redemption process</b>	Shares not individually redeemed through the fund	Redeemed through fund company at end-of-day NAV, less applicable fees
<b>Fees</b>	Expense ratio plus transaction costs	Expense ratios (typically higher than index-linked products); may charge sales loads or redemption fees
<b>Tax implications</b>	Transactions generate tax consequences for the transacting shareholder only; obliged to distribute gains to all shareholders	Shareholder transactions may generate tax consequences for all shareholders; obliged to distribute gains to shareholders
<b>Transparency</b>	Daily holdings disclosure <sup>2</sup>	Generally quarterly holdings disclosure

1. Active funds typically charge higher fees than index-linked products due to increased trading and research expenses that may be incurred.  
 2. In accordance with MSCI licensing, holdings for MSCI-indexed funds are updated monthly.

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Why ETFs in 401(k)?

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## Increasing focus on fees and transparency

Media

- Increased mainstream media attention
  - 60 Minutes: Retirement dreams disappear with 401(k)
  - WSJ: How much does your 401(k) cost you?
  - Bloomberg TV: The truth behind hidden fees in 401(k) plans

Legal

- Increased fiduciary concerns
  - 15+ lawsuits against large firms
  - Small plan suits - Orthopedic Sports Medicine at Cyprus LLC Lawsuit

Regulatory

- Legislation/Regulation pending
  - Department of Labor
  - Representative Miller

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## ETF benefits help address 401(k) concerns

- Low cost
- Fee Transparency
- Risk management
- Modularity and strategies

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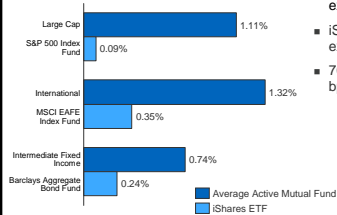
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## iShares ETFs low fees help reduce plan expenses

**Expense Ratio Comparison**  
Average Active Mutual Fund and iShares ETFs



### iShares ETFs low fees

- iShares S&P Target Date Series net expense ratios between 0.29-0.30%
- iShares S&P Target Risk Series net expense ratios between 0.30-0.34%
- 70 funds with an expense ratio of 30 bps or less

Source: BlackRock, Morningstar as of 12/09  
The annual management fees of iShares funds may be substantially less than those of most mutual funds. iShares transactions may result in record-keeping fees, but the savings from lower annual fees can help offset these costs. Other plan fees may apply.

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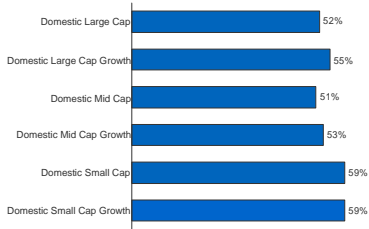
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## Index ETFs seek to provide consistency of index returns

Style consistency of domestic active equity funds: 2005-2009



Standard and Poor's Index vs. Active Funds Scorecard, Year End 2009  
Past performance does not guarantee future results.

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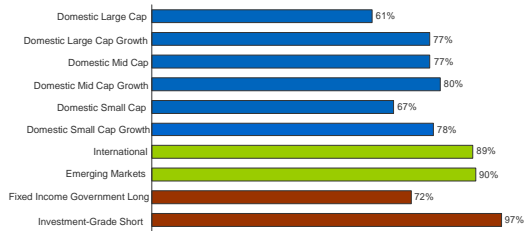
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## Index ETFs seek to provide consistency of index returns

Percentage of active funds outperformed by benchmarks: 2005-2009



Standard and Poor's Index vs. Active Funds Scorecard, Year End 2009  
Past performance does not guarantee future results.

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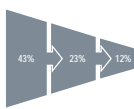
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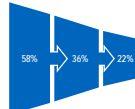
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## Probability of continued manager outperformance December 1995 - 2009

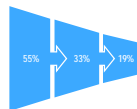
Russell 1000 Blend      Russell 2000 Blend      MSCI Emerging Markets



Over 1 year...  
the following year...  
and the year after.



Over 1 year...  
the following year...  
and the year after.



Over 1 year...  
the following year...  
and the year after.

Sources: BlackRock, Morningstar, MSCI Inc., Russell, as of 12/31/09. Past performance is no guarantee of future results.

The chance of continued manager outperformance fell dramatically with each subsequent period for all three asset classes

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# How does it work?

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### ETFs are offered as standard investment options

ETFs + Mutual Funds	<b>T+1 Settlement</b> <ul style="list-style-type: none"><li>■ Complete open architecture</li></ul>
Fractional Shares	Participants own the actual ETF share <ul style="list-style-type: none"><li>■ Fully invested</li><li>■ Share prices widely available</li></ul>
Institutional Trading	Low cost of trading <ul style="list-style-type: none"><li>■ Trading costs converted to asset based fee or cents per share</li><li>■ Orders aggregated and trade at or near end of day</li></ul>

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### ETFs now widely available major platforms

<b>Preferred Providers</b> Administrators who offer bundled ETF solutions	<b>Ability to customize offering</b> <ul style="list-style-type: none"><li>■ By services offered</li><li>■ By pricing model</li><li>■ By location of service provider</li></ul>
 	
<b>Preferred Networks</b> Firms who offer ETF 401(k) solutions through a network of administrators	<b>We can help you find a service provider that fits your needs</b>
 	Over 50 platforms currently available across 22 states nationwide

The programs above are not offered by BlackRock Institutional Trust Company, N.A., or its affiliates, nor are they offered by SEI or its affiliates. Since every client's circumstances and requirements are different, you should do your own due diligence and make your own assessment.

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# How are advisors using ETFs?

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## Two main approaches to using ETFs

**Standard Lineup**

- ETF used as option in plan
  - Alternative to Index Funds
  - Replace underperforming managers
  - Gain new exposures
- Consistent with existing business models / practices
- Most common approach employed by ~80% of advisors

**Managed Portfolios**

- ETFs used as components of managed portfolio
  - Direct ETFs through providers
  - CTFs
- Customized, value added offering
- Fastest growing approach employed by ~20% of advisors

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## Advisors addressing a wide range of plan sizes

	Employees	Assets
Average	200	\$ 4.4M
Minimum	2	\$ 0
Maximum	30,000	\$ 210M

Source: BlackRock as of 2010

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## Advisors using ETFs and mutual funds

ETF-only lineups common with small plans

- Estimate 70% of plans with less than \$1M

ETF-MF lineups common with larger plans

- Estimate 80% of plans with more than \$5M
- ~30-40% iShares allocation

Advisors utilizing entire iShares lineup

- Over 115 funds through one platform
- 52% of assets in top 10 funds
- 79% of assets in top 25 funds

Source: BlackRock as of 2/10

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## ETFs offer unique advantages over traditional index mutual funds

- Lower Cost
- Increased Transparency
- Breadth of Offering
- Recognized Indexes
- No Minimums
- No Redemption Fees
- No Holding Restrictions

While iShares funds do not have minimum investment requirements, an investor must purchase whole shares.

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What's Next?

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## ETF history repeats itself

### Comments made by ETF critics in 2000

- **Advisors can't access ETFs**
  - Not available on many platforms
- **Advisors can't get paid on ETFs**
  - No revenue sharing
  - Fees too transparent
- **Advisors like "Active" managed funds**
  - Can't add value using index funds

Global ETF assets broke through the US\$1 trillion milestone at the end of 2009\*

Sound Familiar?

\* Source: Global ETF Research & Implementation Strategy Team, BlackRock, Bloomberg as of 12/09

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## What to expect in 2010

- Significant expansion of platforms
  - Multiple custodial platforms expected to launch ETF solutions
  - Anticipate over 100 new TPAs / recordkeepers
- Growth in managed models
  - Managers serving SMA market also serving 401(k)
  - Increase in 338 fiduciary services
- Growth in iShares messaging and support
  - Value added materials
  - Increased wholesaler support

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## Questions?

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Carefully consider the iShares Funds' investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Funds' prospectuses, which may be obtained by calling 1-800-474-2737 or by visiting [www.iShares.com](http://www.iShares.com). Read the prospectus carefully before investing.

Investing involves risk, including possible loss of principal.

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The information provided is not intended to be a complete analysis of every material fact respecting any strategy and has been presented for educational purposes only.

Asset allocation models and diversification do not promise any level of performance or guarantee against loss of principal.

Shares of iShares Funds are bought and sold at market price (not NAV) and are not individually redeemed from the Fund.

Mutual funds and iShares Funds are obliged to distribute portfolio gains to shareholders by year-end. These gains may be generated due to index rebalancing or to meet diversification requirements. Trading shares of the iShares Funds will also generate tax consequences and transaction expenses. Certain traditional mutual funds can be tax efficient as well.

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, but the savings from lower annual fees can help offset these costs.

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Index returns are for illustrative purposes only 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. Past performance does not guarantee future results.

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For more information, visit  
[www.iShares.com](http://www.iShares.com)

<b>Get Started</b>	Track-based learning
<b>Education Center</b>	Watch, listen, get credit
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