



## TOOL KIT INVESTORS

WHAT IS AN ETF

UNDERSTANDING  
STRUCTURE & INDEX

BENEFITS OF ETFs

DISPELLING COMMON  
ETF MYTHS

PUTTING ETFs  
TO WORK

GET TO KNOW iSHARES  
BY BLACKROCK

Exchange Traded Funds (ETFs) can help change the way you manage your investments. ETFs combine the benefits of mutual funds and stocks, offering you diversified, efficient, cost-effective and transparent access to the world's investment markets.

This investor tool kit has been designed to help you discover more about the benefits of using ETFs and how they can form a key part of your investment portfolio.



# WHAT IS AN ETF ?

**An ETF is an investment fund that is traded on a stock exchange.**

The aim of most ETFs is to track the performance of a specified index (like the S&P<sup>®</sup>/TSX<sup>®</sup> 60)<sup>1</sup> and to provide you with the same return as the index less fees.

To deliver the same return as the index, the ETF (exchange traded fund) provider manages a fund that either replicates the holdings of the index (known as a 'physically-replicated' ETF), or alternatively, the fund can replicate the index's performance by using a synthetic structure (known as a 'derivative-replicating' ETF).

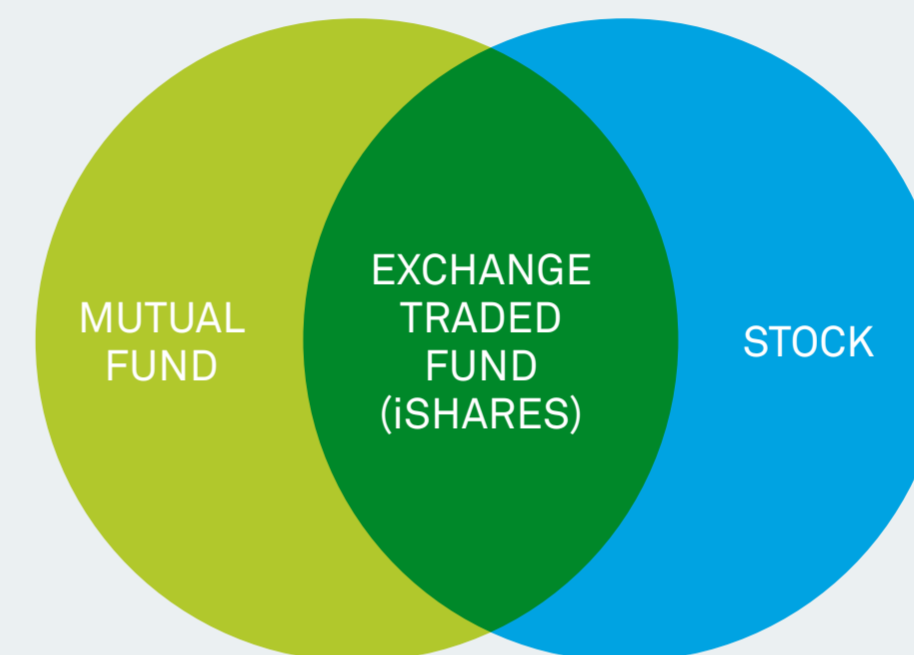
Like a mutual fund, an ETF gives investors access to a portfolio of stocks, bonds or other asset types (such as commodities).

Like a stock, an ETF is bought and sold on a stock exchange offering investors the best of both worlds – the diversification of a mutual fund, with the intra-day trading and flexibility of a stock.

There are ETFs available that track most major indexes for domestic and international equities and bonds; commodities; and a variety of additional asset classes like real-estate and infrastructure, providing efficient access to many markets for investors. Sector-based ETFs are also available, offering access to specific industries from both domestic and global views.

As a result, ETFs are fast becoming one of the most flexible and efficient investment tools used for portfolio construction and asset allocation. ETFs offer real benefits to your clients in an easy-to-use package – delivering low-cost, transparent and efficient access to the markets.

<sup>1</sup> The S&P<sup>®</sup>/TSX<sup>®</sup> 60 Index is comprised of 60 of the largest (by market capitalization) and most liquid securities listed on the TSX selected by S&P



**Many ETFs are index-tracking investments that offer real benefits in an easy-to access package**

Additional Resources

[iSHARES ETF BASICS](#)



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# UNDERSTANDING STRUCTURE & INDEX

## ETF Structure

### Are all ETFs the same?

**No.**

Broadly speaking, there are 2 types of ETFs and the difference between them relates to what the ETF actually 'owns'.

**Physically Replicating ETFs** >

**Synthetic / Derivative Replicating ETFs** >

## Additional Resources

[« COLLECTIVE AMNESIA » - BLOG BY NOEL ARCHARD](#)



## Understanding the Index

ETFs are designed to track an index, so understanding the index that the chosen ETF tracks is very important.

There are wide arrays of indexes that can differ significantly in terms of investment types and strategies. This means it is essential to be able to assess the composition, objectives, performance and risks of each index.

Take Canadian Equity for example:

### > What index represents the Canadian Market?

The S&P/TSX 60 Index is an efficient way to access large cap securities.

### > What is the market coverage?

The S&P/TSX 60 Index offers Canadians access to 60 of Canada's largest blue chip companies in a single trade.

### > Which securities are included and in what weights?

The holdings are diversified across sectors including financials, energy, materials, etc. covering all GIC sectors in the Canadian market.

### > Is the index transparent?

Yes. You can see the index holdings at any point in the day.

Other key class indexes include:

- |   |   |
|---|---|
| > Canadian Fixed Income                 | DEX Universe Bond Index                       |
| > Canadian Corporate Bonds              | DEX All Corporate Bond Index                  |
| > US Equities (un-hedged)               | S&P 500 Index                                 |
| > Developed Market Equities (un-hedged) | MSCI EAFE Investable Market Index             |
| > Emerging Market Equities (un-hedged)  | MSCI Emerging Markets Investable Market Index |

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# BENEFITS OF ETFs

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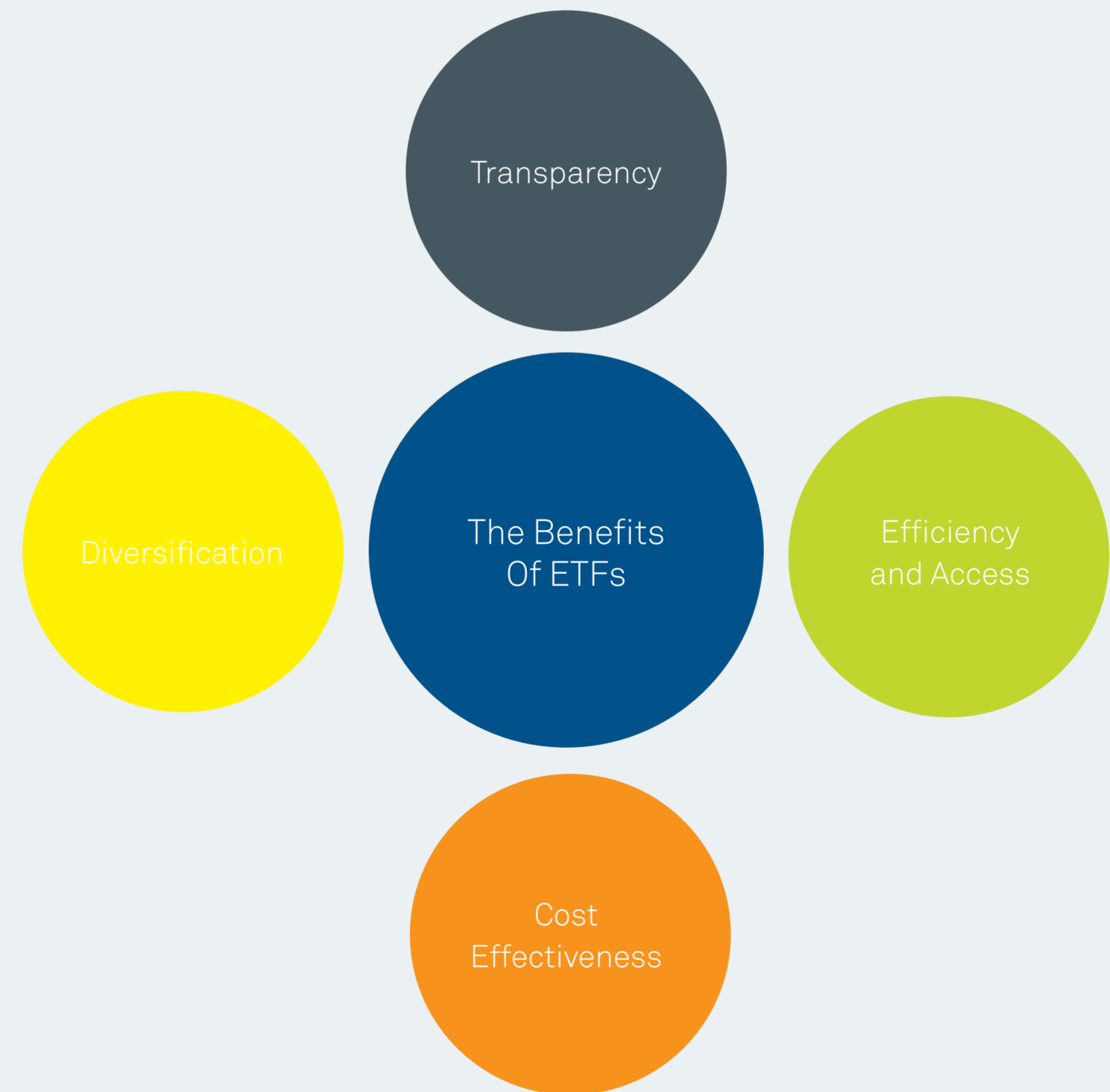
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ETFs have become an essential portfolio building block, offering diversification, transparency and liquidity, all at a lower cost than traditional mutual funds. Their growing popularity demonstrates the value investors place on the following benefits that ETFs have delivered.

Additional Resources

**WHY iSHARES ETFs**



# DISPELLING COMMON ETF MYTHS

The popularity of ETFs has grown enormously over recent years and with this has come a lot of commentary about their role in investors' portfolios. Here we address some of the most common myths related to ETFs.

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## 1 ETFs are just another product fad

The first ETF was launched almost two decades ago and today there is approximately \$2trn<sup>I</sup> invested in ETFs globally, we firmly believe ETFs can now be considered for a mainstream part of any portfolio. Canada's own XIU (iShares S&P/TSX 60 Index Fund) was the world's first ETF with a history spanning over 20 years.<sup>II</sup> Since the launch of XIU in 1990, it has grown to be the largest ETF in Canada with almost \$12 billion in assets, and is the 2nd largest mutual fund in the country<sup>III</sup>

ETFs are used by some of the world's largest pension funds, government agencies, asset managers, banks, and individual investors.

## 2 ETFs and index funds aren't exciting

The allure of actively managed funds may look more exciting because of the potential to outperform the market. Index based investing was sometimes seen as less exciting.

However there is substantial research that suggests that over the long-term, the bulk of returns in investment portfolios are generated through asset allocation rather than stock selection. Further, it is often challenging to find active funds that consistently outperform over the long-term.

We believe both active and index strategies have a role to play in a well-diversified portfolio. ETFs offer investors the opportunity to access virtually any sector, geographic region or major asset class efficiently and cost effectively, creating near-endless opportunities for building customized portfolios.

## 3 ETFs are all the same – they're just a commodity

When selecting an ETF for your client's portfolio, a golden rule to remember is that not all ETFs are created equal and like any investment, undertaking due diligence on the provider and the fund is critical to selecting a product truly matched to your clients' needs.

We believe there are 5 main considerations to consider before choosing an ETF for your portfolio; Provider, Exposure, Structure, Liquidity, and Costs.

Each of these factors can impact product quality, suitability, risk and return and can vary significantly between providers and funds.

I BlackRock ETP Landscape March 31, 2013

II BlackRock Asset Management Canada Limited (formerly TIPS 35 launched on the Toronto Stock Exchange in March 1990)

III Morningstar Direct as of January 31, 2013

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## **4** When choosing an ETF, the underlying index doesn't really matter-

Each index provider creates its own set of requirements to define an index universe. For equity ETFs, key differences in index construction methodologies can include: number of constituents, market capitalization, style and sector composition.

Some indexes, for example, differentiate between a country as being 'developed' or 'developing'. For fixed income ETFs, providers build indexes around criteria such as credit quality and maturity. Understanding these differences is vital in ensuring that portfolios contain the appropriate ETF to reach your investment goal.

## **5** It's hard to tell exactly what an ETF invests in

One of the key benefits of ETFs is transparency– you can see what an ETF holds, its performance and costs often on a much more frequent basis than other investment funds.

Disclosure will vary between providers, but with iShares ETFs you can see this information updated every trading day. This transparency affords greater control over your portfolio and enables you to more quickly and efficiently respond to market events.

## **6** ETFs are only for market timers

Because ETFs can be bought and sold intra-day, some equate their application to that of stocks often used by speculators or market timers.

However, over the long-term, investors can also benefit from the lower expense ratios associated with ETFs, as well as the significant diversification opportunities ETFs can afford – some ETFs offer access to over 1,000 companies in a single trade.

As always, the benefits of an ETF should be considered in the context of an investor's need for liquidity and their broader investing objectives and time horizons.

Additional Resources

[ETF CHECK LIST](#)





# PUTTING ETFs TO WORK

It's a new world, and in times like these, many investors are re-thinking their investment portfolio. As we crawl out of the lost decade, one certainty remains: the future is coming. It's no longer enough to simply preserve what you have today; you have to start building what you need for tomorrow, and you can't wait until tomorrow to do so. It's time to be an investor again. Where do you start? Start with one of these three strategies:

## Strategy 1: You build - iShares basics ETFs

Every investor's needs are different. Greater diversification is crucial and putting together the right mix of assets is arguably more important than ever. Mixing and matching iShares ETFs to build your personalized investment portfolio can be an efficient, cost-effective approach to investing.

Get started with iShares Building blocks in three easy steps

### Step 1: Consider the essentials

Consider the essentials. Access major asset classes and go across borders with just 3 iShares ETFs: Canadian stocks (**XIU**), U.S. stocks (**XUS**), and Canadian bonds (**XBB**).

**XIU**

**XUS**

**XBB**

### Step 2: Customize your portfolio

iShares makes it easy to customize your exposure with these additional ETFs: developed (**XEF**) and emerging (**XEC**) market stocks, dividend income (**XDV**), global fixed income (**XHY**), corporate bonds (**CBO**), short-term bonds (**XSB**) or select a one-ticker balanced solution (**XTR**).

### Step 3: Capture opportunities

See what the world has to offer. Act on your ideas and adapt to changing markets. Looking for income? Consider **XHY**. Or less volatility? Try an iShares minimum volatility strategy. iShares offers you over 90 liquid, transparent, low-cost- and diversified ETFs to implement your ideas.

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## Strategy 2: We blueprint, you build – iShares Model portfolios

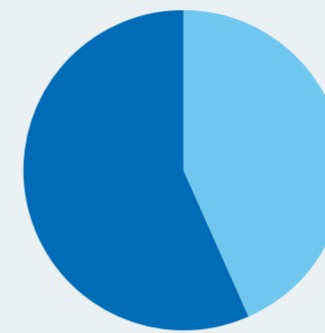
iShares model portfolios were designed with that in mind. They are comprised of iShares ETFs and are reviewed and published as guidelines to building a diversified portfolio. They are constructed based on varying risk levels and an investors desire for domestic or global exposure. The models are dynamic and yield targets are analyzed on an ongoing basis and adjusted as a result of what’s really going on in the market and how feasible it is to achieve low, moderate or high yield.

### Additional Resources

[iSHARES PRODUCT LIST](#)

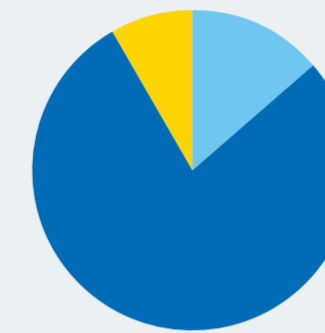


Conservative Income



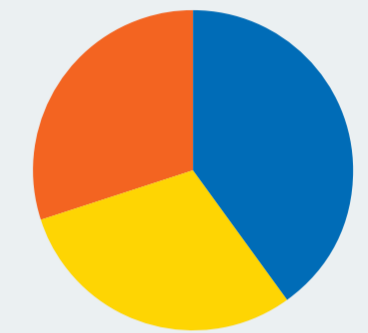
Government	43.4 %
Corporate	56.6 %
Us Corporate	0.0 %
International	0.0 %

Moderate Income



Government	13.8 %
Corporate	77.9 %
Us Corporate	8.3 %
International	0.0 %

High Income



Government	0.0 %
Corporate	40.0 %
Us Corporate	30.0 %
International	30.0 %

Data shown is for informational purposes only, does not represent an actual account, and is not the result of any actual trading. This information should not be relied upon as research, investment advice or a recommendation regarding the iShares Funds or any security in particular. This information is subject to change. Actual investment outcomes may vary.

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## Strategy 3: We build – iShares Multi Asset Class Products

These funds of ETFs offer a strategic asset mix that maximizes diversification and can act as the core or completing elements of a portfolio.

Ranging from conservative to aggressive, these portfolios have varying risk tolerance levels, designed to help meet your individual needs and the amount of risk you are willing to take in your portfolio, based on your investment goals and objectives.

And because they are pre-packaged, you get the benefit of asset allocation in a single security.

**XGR**

**XAL**

**XTR**

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## The iShares Difference

It is a new world. Today's markets may be more volatile, more uncertain and more complex than ever before. Investing in today's world is an active, dynamic process and many of the old ways of investing simply are not working any more.

iShares innovations deliver efficient, transparent market exposures to investors.

## Why choose iShares?

iShares launched the world's first ETF over 20 years ago; XIU - iShares S&P/TSX 60 Index Fund. Since then XIU has grown to be the largest ETF in Canada with almost \$12 billion in assets and has provided individual and institutional investors alike a way to access 60 of Canada's largest blue chip companies – in a single trade.<sup>1</sup>

## iShares believes its success comes down to three key factors:

### Professional quality:

iShares delivers quality products that can help you navigate today's volatile markets.

### Individual choice:

As your partner, iShares helps you execute investment ideas with insights and support.

### Responsible innovation:

iShares is an industry leader in making investing clear, fair, and efficient for you.

<sup>1</sup> BlackRock Asset Management Canada Limited (formerly TIPS 35) launched on the Toronto Stock Exchange in March 1990

## The World's Largest Investment Manager

Over the years, millions of investors have entrusted their assets to us.

**\$3.56 TRILLION**

Largest asset manager with \$3.56 trillion in assets under management (AUM)<sup>1</sup>

**TOP 10**

Only asset manager ranked in the top 10 for open-end funds, ETFs, accounts and closed-end funds (based on AUM)<sup>2</sup>

**\$650 BILLION**

iShares® ETFs is the world's leading ETF provider, with more than \$650 billion in AUM<sup>3</sup>

## Additional Resources

[iSHARES DIFFERENCE](#)



[BLACKROCK BUILT FOR THESE TIMES](#)



<sup>1</sup> AUM as of 6/30/12.

<sup>2</sup> Based on assets under management. All AUM data is retail. Source: Intermediary-sold OEF 6/30/12, CEF; ETF, Simfund data; SMA 12/31/11 Cerulli data. US retail rankings based on assets under management.

<sup>3</sup> Source: BlackRock Investment Institute, Bloomberg, as of 6/30/12. Based on number of ETFs, AUM and market share. All figures are expressed in USD.



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