Open Letter to Our Investors

June 29, 2013

Dear iShares Investor,

The role of exchange-traded funds (ETFs) continues to grow in the global capital markets as investors seek efficient, tailored access to different investment exposures. This rise in prominence has increased focus on how ETFs perform, particularly in stressed markets.

During the market volatility of the past few weeks, ETFs performed precisely as they are designed to do. Despite extreme stress in underlying markets, ETFs in many cases performed better than ever in allowing investors to move quickly and efficiently in and out of investment exposures.

ETFs empower investors to buy and sell investment exposures immediately, throughout the trading day, at current market prices. When investors trade ETFs, they execute in two linked markets.

- One is the normal stock market, where buyers and sellers match up just like with other individual stocks. This is known as the “secondary” market for ETFs. The majority of trading occurs here, including almost all trading by retail investors. Over 400 brokers are active in the secondary trading of ETFs in the United States.

- When large sums of money seek to buy or sell an ETF, however, the process works similarly to how a mutual fund expands or contracts. This market operates through a large set of banks and brokers, known as authorized participants. When sufficient demand exists to expand an ETF, the institution assembles a large group of orders, and creates new shares in the ETF. When investors sell in bulk, the bank does the reverse. This valve-like mechanism is known as the primary market, and it is how the price of the ETF and the underlying assets stay close to one another. In the United States, iShares uses 45 of the world’s leading institutions as authorized participants to ensure there is vast capacity for large orders.

The point is, **both markets have performed well**.

Since May 22, when Federal Reserve announcements first sparked concerns in the markets about rising interest rates, many investors decided to sell a wide range of global financial assets. Many of these investors turned to ETFs to execute their investment views. Even where the underlying markets were thinly traded (like some kinds of bonds) or closed during New York trading hours (as with many international equities), ETFs enabled investors to move quickly and efficiently to execute their views.

Markets around the world saw surges in trading. The secondary market for ETFs surged even more. In June, ETF volume soared to about 34 percent of all US exchange volume (according to the NYSE), versus a more typical 25 percent. In our own ETFs, we saw record trading volumes for some of our flagship iShares. Our high-yield U.S. bond (HYG) exceeded $1 billion in daily trading for the first time, and our largest emerging market equity fund (EEM) traded $5.6 billion in one day. In each case, investors used ETFs to trade efficiently and at the most current market prices, often ahead of underlying markets like fixed income and foreign equities.

Just as the secondary market for ETFs operated smoothly, so did the primary market. We maintain an active dialogue with the 45 banks that act as authorized participants for iShares, including conducting periodic reviews. **This week, we reconfirmed with all 45 that they are operating business as usual in the primary market for ETFs and remain fully committed to supporting our ETFs.** So far this year, our network of authorized participants has traded over $300 billion in this primary market.

The last few weeks have highlighted an underlying trend that merits broader public appreciation. **More and more ETFs are becoming the true market,** particularly when market sentiment shifts fast. ETFs are increasingly becoming the place where investors of all sizes can see the market price for a given investment exposure, and **act** on what's really happening now in the markets. In a rapidly moving market, the reported prices of individual underlying assets may become stale. The ETF price can become the true price for that market, and the underlying assets may eventually catch up with any gap between the two (called a "premium" or "discount"). This is a main reason that so many investors large and small opted to use ETFs during the last month's volatility.

To ensure more investors understand this underlying trend and how ETFs work, we are embarking on a fresh program for investor education. Please expect to hear more on this program over the coming weeks and months.

Thank you for your business with us, and for your trust in BlackRock as your asset manager.

Yours sincerely,

Mark Wiedman
Global Head of iShares
BlackRock

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 and, if available, summary prospectuses, which may be obtained by calling 1-800-iShares (1-800-474-2737) or by visiting www.iShares.com. Read the prospectus carefully before investing.

Investing involves risk, including possible loss of principal. Bonds and bond funds will decrease in value as interest rates rise and are subject to credit risk, which refers to the possibility that the debt issuers may not be able to make principal and interest payments or may have their debt downgraded by ratings agencies. High yield securities may be more volatile, be subject to greater levels of credit or default risk, and may be less liquid and more difficult to sell at an advantageous time or price to value than higher-rated securities of similar maturity. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume.

Although market makers will generally take advantage of differences between the NAV and the trading price of iShares Fund shares through arbitrage opportunities, there is no guarantee that they will do so.

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