ETF Observer

June 2014

Contents

ETF Insight

Sell in May?

It looks as though investors may be foregoing their summer vacations.

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June saw broad-based gains in global equity markets and $17.4 billion in net new inflows into U.S.-domiciled exchange-traded products, which might be evidence that investors are sitting tight this summer. Instead of going away, ETP flows seem to indicate that investors are ratcheting up their risk exposures. Taxable bond exchange-traded funds registered $8.7 billion of net new inflows in May—the second largest monthly figure in the past three years. Investors demonstrated a preference for riskier fare in this segment last month. Long-dated government bond and high yield ETFs were the biggest asset gatherers in the category. Meanwhile bank loan ETFs saw a second consecutive month of net outflows. This marks just the third month of net outflows for bank loan ETFs in the three-plus years that they have existed. In the realm of equities, ETFs benchmarked to European stock bogies had an 11th consecutive month of inflows. ETFs in the diversified emerging markets category notched their second consecutive month of inflows after having hemorrhaged assets through much of 2013. All-in-all it looks as though investors are paying little heed to the old adage "sell in May and go away" as summer gets under way.

In this issue, we feature three recent articles from Morningstar's passive strategies research team. The first article, written by Michael Rawson, scrutinizes investors' collective obsession with alpha. He argues that market beta gets short shrift. Given that market exposure does most of the heavy lifting when it comes to producing investment returns, beta should command more respect. Next, Patricia Oey provides an in-depth analysis of upcoming changes to the MSCI Emerging Markets and MSCI Frontier Markets indexes. The graduation of Qatar and the United Arab Emirates from frontier to emerging market status has a number of important implications for index fund investors. In this month's third and final article, Robert Goldsborough examines the latest developments in the realm of non-transparent actively managed ETPs. SEC approval of non-transparent ETP "technologies" could spur a flood of active ETP launches. But essential questions around the "if" and "when" of any such approvals must first be answered.

Best,

U.S. Market Barometer

1 Month

US Market 2.26%

		Value	Core	Growth
		1.09%	2.34%	3.31%
Large Cap	2.44%	0.93%	2.35%	3.96%
Mid Cap	2.03%	1.72%	2.67%	1.75%
Small Cap	1.03%	1.07%	1.34%	0.65%

YTD

US Market 4.56%

		Value	Core	Growth
		4.84%	5.40%	3.50%
Large Cap	4.93%	4.63%	5.46%	4.70%
Mid Cap	4.62%	6.25%	6.37%	1.63%
Small Cap	0.38%	3.16%	2.10%	-4.18%

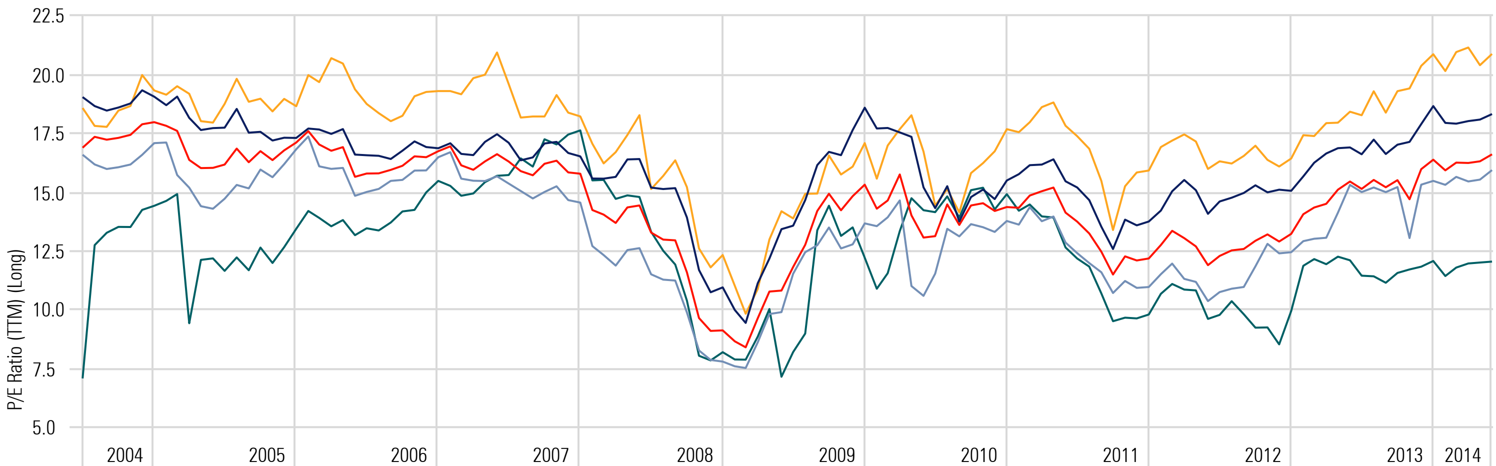
1 Year

US Market 20.46%

		Value	Core	Growth
		18.41%	19.59%	23.41%
Large Cap	20.21%	16.44%	19.00%	25.22%
Mid Cap	21.84%	25.13%	22.00%	18.79%
Small Cap	18.81%	19.42%	19.19%	17.70%

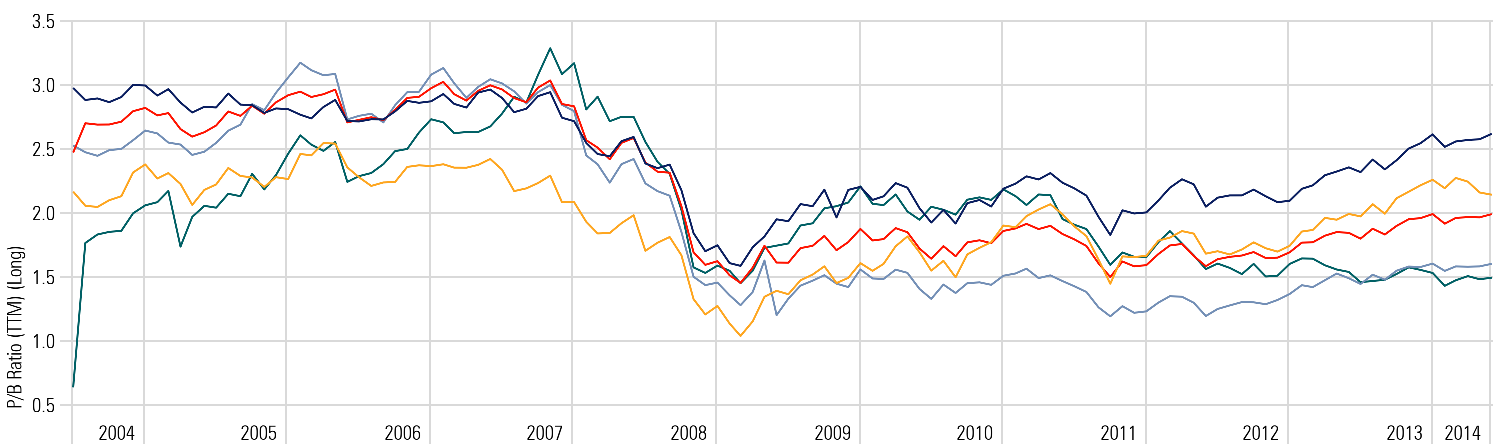
Price/Earnings

Time Period: 6/1/2004 to 5/31/2014



Price/Book Value

Time Period: 6/1/2004 to 5/31/2014



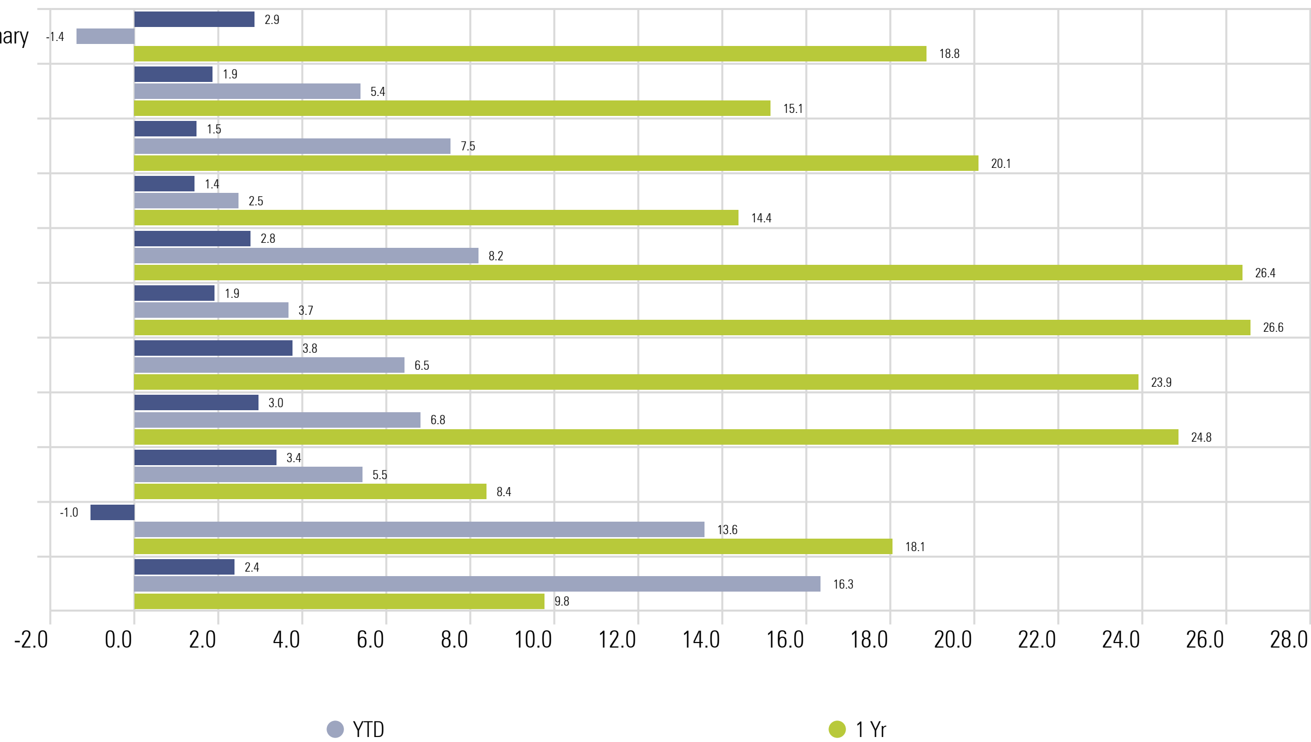
● S&P 500 TR USD ▲ Russell 2000 TR USD ▼ MSCI ACWI NR USD
◄ MSCI EAFE NR USD ► MSCI EM NR USD

Market Performance

Trailing Total Returns

U.S. Equity Market	1 Month	YTD	1 Year	3 Yr Annlzd	5 Yr Annlzd	10 Yr Annlzd	15 Yr Annlzd
S&P 500 TR USD	2.35	4.97	20.45	15.15	18.40	7.77	4.58
Wilshire 5000 Total Mkt TR USD	2.19	4.45	20.39	14.68	18.66	8.24	5.26
DJ Industrial Average TR USD	1.19	1.92	13.27	12.87	17.56	7.83	5.56
NASDAQ 100 TR USD	4.55	4.64	27.10	17.87	22.65	10.66	4.53
Russell 2000 TR USD	0.80	-2.02	16.79	11.73	19.32	8.59	7.95
Global Equity Market							
MSCI ACWI NR USD	2.13	4.22	17.15	8.99	13.73	7.47	4.58
MSCI EAFE NR USD	1.62	3.78	18.04	7.30	11.43	7.06	4.79
MSCI EM NR USD	3.49	3.39	4.27	-1.77	8.37	11.70	9.47

S&P 500 Sectors



Trailing Total Returns

U.S. Fixed Income Market	1 Month	YTD	1 Year	3 Yr Annlzd	5 Yr Annlzd	10 Yr Annlzd	15 Yr Annlzd
Barclays US Agg Bond TR USD	0.07	6.15	7.90	7.56	4.77	2.62	3.43
Markit iBoxx Liquid IG TR USD	0.57	8.70	10.74	10.79	9.01	3.80	4.10
BofAML US HY Master II TR USD	-0.07	7.04	13.39	12.80	14.26	6.51	5.26
Morningstar Short-Term US Govt TR	-0.79	2.85	5.92	4.78	1.31	0.67	1.76
Morningstar Short-Term Corp TR	-0.63	3.73	7.78	6.91	4.17	1.55	2.70
Morningstar Intermediate US Govt TR	0.03	4.95	5.86	6.70	3.76	2.55	3.54
Morningstar Intermediate Corp TR	0.17	6.11	9.31	9.47	7.85	3.71	4.51
Morningstar Long-Term US Govt TR	1.37	11.94	7.35	10.65	6.45	4.36	4.85
Morningstar Long-Term Corp TR	1.01	11.52	11.76	12.26	10.99	5.15	5.45
S&P Preferred Stock TR USD	0.29	12.83	11.58	11.17	13.21	3.05	—

Top 10 ETF Providers

Name	# of ETFs	Est. Net Flow ($Mil) 1-Mo	YTD	1-Yr	Market Share: Total Net Assets ($Bil) Present 05-14	Mkt Sh%	Rank	One Year Ago 05-13	Mkt Sh%	Rank
iShares	303	7,499.74	21,309.09	37,587.77	702.89	38.96	1	607.94	40.46	1
State Street	130	(1,087.62)	(19,338.80)	4,129.37	386.28	21.41	2	344.61	22.93	2
Vanguard	67	5,778.82	24,409.44	52,060.08	372.26	20.63	3	287.46	19.13	3
PowerShares	163	631.22	(739.11)	5,486.41	99.94	5.54	4	82.48	5.49	4
WisdomTree	68	141.63	(658.62)	2,998.23	34.32	1.90	5	30.40	2.02	5
ProShares	145	181.60	2,428.55	4,290.94	27.32	1.51	6	24.69	1.64	6
Guggenheim	68	784.60	3,832.31	9,409.30	26.19	1.45	7	14.50	0.97	8
First Trust	85	1,003.10	5,323.37	10,969.90	25.92	1.44	8	11.99	0.80	11
Van Eck	62	365.36	400.98	1,618.77	23.35	1.29	9	23.75	1.58	7
Schwab	21	506.13	2,833.92	6,263.24	20.51	1.14	10	12.20	0.81	10

Top 15 ETF Inflows in May

Name	Ticker	Est. Net Flow ($Mil) 1-Mo	YTD	1-Yr	Market Share: Total Net Assets ($Bil) Present 05-14	Mkt Sh%	Rank	One Year Ago 05-13	Mkt Sh%	Rank
iShares 7-10 Year Treasury Bond	IEF	5,227.10	5,988.86	5,369.05	9.87	0.55	43	4.50	0.30	73
ProShares Ultra 7-10 Year Treasury	UST	1,868.06	1,895.71	737.20	1.93	0.11	159	1.13	0.08	184
iShares MSCI Emerging Markets	EEM	917.81	(2,662.60)	(4,342.26)	37.99	2.11	7	42.55	2.83	5
iShares US Real Estate	IYR	804.18	1,292.18	124.23	5.52	0.31	73	5.27	0.35	65
Vanguard European Stock Index ETF	VGK	754.16	2,997.57	9,436.26	17.30	0.96	20	5.85	0.39	57
PowerShares QQQ	QQQ	694.68	(3,430.40)	(36.26)	43.38	2.40	5	34.77	2.31	7
Vanguard FTSE Developed Markets ETF	VEA	651.23	3,305.53	7,051.90	22.91	1.27	12	13.45	0.90	21
Vanguard REIT Index ETF	VNQ	586.52	2,783.60	2,707.62	23.05	1.28	11	19.17	1.28	12
iShares MSCI EMU Index	EZU	562.87	2,698.53	7,891.87	11.59	0.64	35	2.26	0.15	118
Industrial Select Sector SPDR®	XLI	561.28	343.96	3,642.97	10.43	0.58	39	5.17	0.34	66
iShares iBoxx $ Invst Grade Crp Bond	LQD	545.02	1,323.18	(4,962.98)	17.79	0.99	19	22.70	1.51	9
Energy Select Sector SPDR®	XLE	490.05	2,554.76	2,318.65	11.36	0.63	37	7.73	0.51	39
iShares Core MSCI Emerging Market	IEMG	444.52	1,028.90	3,024.53	4.54	0.25	82	1.35	0.09	172
Vanguard S&P 500 ETF	VOO	419.44	3,008.30	6,827.51	18.82	1.04	17	9.69	0.65	36
iShares US Preferred Stock	PFF	391.61	1,046.86	(1,955.30)	10.06	0.56	41	12.27	0.82	26

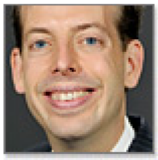
Top 15 ETF Outflows in May

Name	Ticker	Est. Net Flow ($Mil) 1-Mo	YTD	1-Yr	Market Share: Total Net Assets ($Bil) Present 05-14	Mkt Sh%	Rank	One Year Ago 05-13	Mkt Sh%	Rank
iShares Russell 2000	IWM	(3,454.74)	(2,585.87)	(251.01)	24.03	1.33	9	21.10	1.40	10
ProShares Ultra Russell2000	UWM	(1,434.74)	215.32	(41.96)	0.21	0.01	551	0.15	0.01	551
ProShares Ultra S&P500	SSO	(998.15)	(1,183.79)	(595.93)	2.39	0.13	138	2.43	0.16	111
iShares Core S&P 500	IVV	(943.28)	936.73	6,305.02	56.81	3.15	2	42.57	2.83	4
SPDR S&P 500	SPY	(887.06)	(21,060.55)	(201.78)	160.16	8.88	1	138.51	9.22	1
Utilities Select Sector SPDR® ETF	XLU	(700.26)	568.85	(818.51)	5.82	0.32	64	5.74	0.38	59
iShares MSCI Japan	EWJ	(605.20)	254.84	1,693.69	13.61	0.75	27	11.55	0.77	28
Financial Select Sector SPDR®	XLF	(513.03)	641.86	2,188.80	17.94	0.99	18	13.94	0.93	20
SPDR Dow Jones Industrial Average	DIA	(430.02)	(1,446.41)	(2,594.27)	11.37	0.63	36	12.63	0.84	22
iShares S&P 500 Growth	IVW	(312.85)	6.84	666.30	9.64	0.53	44	7.38	0.49	43
WisdomTree Japan Hedged Equity	DXJ	(285.90)	(1,245.72)	935.94	10.61	0.59	38	9.90	0.66	35
Consumer Staples Select Sector SPDR®	XLP	(283.59)	(1,152.60)	(1,027.84)	5.82	0.32	63	6.64	0.44	46
SPDR S&P MidCap 400	MDY	(271.58)	(416.06)	129.49	15.27	0.85	22	12.58	0.84	23
Health Care Select Sector SPDR®	XLV	(256.21)	290.63	897.08	9.47	0.52	45	7.05	0.47	45
iShares Russell 2000 Value	IWN	(244.23)	(340.31)	(334.84)	5.77	0.32	67	5.36	0.36	64

ETF News

BlackRock Broadens its iShares Core Lineup

Low-cost lineup adds U.S. growth, dividend, and value ETFs and more foreign and bond ETFs. Meanwhile, just 10 exchange-traded funds launched in May--the fewest of any month of 2014.



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On June 10, BlackRock announced the doubling in size of its "iShares Core" lineup of building-block exchange-traded funds, which are aimed at offering investors broad, low-cost exposure to certain asset classes. As part of the announcement, around June 12, iShares is set to roll out four new ETFs and rebrand six others, all of which will receive new names and most of which also will pick up new ticker symbols and price tags. Although these new funds will be part of iShares' Core suite, the expanded set of 10 ETFs will be known as "iShares Core Select" ETFs.

The move clearly demonstrates iShares' commitment to its suite of "Core" funds, which launched in October 2012. On the equity side, the Core suite now will branch into several targeted geographic regions, including Europe and Asia, with new low-cost offerings that can act as substitutes for existing, higher-priced iShares offerings, such as iShares Europe IEV (0.60%) and iShares MSCI Pacific ex-Japan EPP (0.50%). It's worth noting that the new Europe and Asia ETFs will track all-cap MSCI benchmarks.

Also, the suite now has added several strategic beta ETFs (per Morningstar's definition), which are devoted to dividends and growth and value factors. Three strategic beta funds will join the suite with significantly lower prices than before. For example, iShares High Dividend ETF HDV, which will take on the new name iShares Core High Dividend ETF, will see its expense ratio drop from 0.40% to 0.12%. (Its index and ticker symbol will not change.). Similarly, the names and price tags for the ETFs formerly known as iShares Russell 3000 Growth and iShares Russell 3000 Value will fall from 0.25% and 0.26%, respectively, to 0.09% in both cases. (The funds' names and tickers will also change, but their indexes will remain the same; details below). A fourth strategic beta fund will be the soon-to-launch iShares Core Dividend Growth ETF DGRO. DGRO and HDV both track Morningstar indexes (Morningstar licenses the index and collects asset-based fees.)

Interestingly, some other iShares strategic beta funds remain outside the "Core" lineup, such as iShares Russell 1000 Growth ETF IWF and iShares Russell 1000 Value ETF IWD, both of which continue to charge 0.20%. Below are more details on the changes:

New Funds, With Their Expense Ratios and Indexes
--iShares Core Dividend Growth ETF DGRO (0.12%) – Will track Morningstar Dividend Growth Index.
--iShares Core MSCI Europe ETF IEUR (0.14%) – Will track MSCI Europe IMI Index.
--iShares Core MSCI Pacific ETF IPAC (0.14%) – Will track MSCI Pacific IMI Index.
--iShares Core Total USD Bond Market ETF IUSB (0.15%) – Will track Barclays U.S. Universal Index.

Changes to Existing Funds That Will Join the Suite
--iShares Russell 3000 Growth IWZ will become iShares Core U.S. Growth ETF IUSG; expense ratio will fall from 0.25% to 0.09%
--iShares Russell 3000 Value IWW will become iShares Core U.S. Value ETF IUSV; expense ratio will drop from 0.26% to 0.09%
--iShares High Dividend HDV will become iShares Core High Dividend ETF HDV; expense ratio will fall from 0.40% to 0.12%
--iShares Credit Bond CFT will become iShares Core U.S. Credit Bond ETF CRED; expense ratio will drop from 0.20% to 0.15%
--iShares U.S. Treasury Bond GOVT will become iShares Core U.S. Treasury Bond ETF GOVT
--iShares GNMA Bond GNMA will become iShares Core GNMA Bond ETF GNMA; expense ratio will fall from 0.25% to 0.15%

Merk Gold ETF Makes Its Debut

On May 16, Merk Gold ETF OUNZ made its debut, after more than two years of planning by its sponsor, first-time ETF issuer Merk Funds. The physical gold ETF, which like SPDR Gold Trust GLD holds physical gold bars, has drawn significant attention for its provision that allows very small investors the option of actually taking physical delivery of the gold that is represented by its shares. However, redeeming one's shares comes at a price – investors must either pay a minimum fee or a fee per ounce, depending on which one is greater. In most cases, the redemption fee is not especially economical, and it remains an open question as to how many investors actually will avail themselves of the delivery option. Like GLD, OUNZ costs 0.40%.

Direxion Rolls Out Daily S&P 500 Bull ETF

On May 28, Direxion launched a twice-leveraged ETF offering double the daily return of the large- and mid-cap S&P 500 Index. Probably best used as a trading vehicle, Direxion Daily S&P 500 Bull 2X ETF SPUU invests in swaps and derivatives to meet its target of giving investors twice the S&P 500's daily return. A word of caution: Because the leverage resets each day, investors holding SPUU across a longer time period aren't necessarily guaranteed to reap double the index's return across that longer period. SPUU charges 0.65%.

WisdomTree Launches Europe Dividend Growth, Int'l Hedged Dividend Growth ETFs

On May 7, WisdomTree debuted two passively managed ETFs offering exposure to baskets of dividend-paying foreign stocks. WisdomTree Europe Dividend Growth Fund EUDG, which charges 0.58%, tracks a fundamentally weighted index of 300 dividend-paying European stocks with a strong combined ranking of growth and quality factors and weighted by cash dividends paid. The index's components tilt heavily toward the United Kingdom, Switzerland, and Germany, and to the consumer staples, health-care, and energy sectors.

Meanwhile, WisdomTree International Hedged Dividend Growth Fund IHDG, which also costs 0.58%, tracks a fundamentally weighted index of foreign developed-markets companies that have the best combined rank of growth and quality factors and also are ranked based on cash dividends paid. The index also seeks to "hedge" against fluctuations between foreign currencies and the U.S. dollar by neutralizing that exposure. Currency-hedged ETFs track indexes containing companies that are expected to do better when the value of foreign currencies goes down and do worse when those currencies value increases. As those foreign currencies fall, foreign companies that are large exporters are expected to do well. However, the reason an investor would want a hedged product is because if one holds foreign companies who are major exporters in their own currencies, it hurts an investor's investment. But by holding a hedged basket of those foreign names, an investor gets the exposure without any currency headwind.

UBS Pulls Plug on "Risk On, Risk Off" ETNs

On May 9, UBS delisted and liquidated a pair of exchange-traded notes that were aimed at offering exposure to baskets of securities moving in opposite directions, depending on the outlook for the economy and the financial markets.

Capitalizing on the trader terms "risk on" and "risk off," UBS ETRACS Fisher-Gartman Risk On ETN ONN and UBS ETRACS Fisher-Gartman Risk Off ETN OFF were based on the Fisher-Gartman Risk Index, which commodities traders Mark Fisher and Dennis Gartman created. The benchmark contains a mix of long and short asset allocations, with long positions in risky assets and short positions on conservative ones. The upshot was that the value would be expected to rise when market and economic sentiment is positive and then fall when sentiment turns the other way.

Investors never took much an interest in ONN, which was aimed at doing well in a period of positive sentiment, or its negative-sentiment (and higher-priced) counterpart, OFF. UBS has not been shy about liquidating its ETRACS ETNs that have struggled to gain traction with investors. In September 2012, the bank shuttered 12 volatility-oriented ETNs, and last June, the firm redeemed seven more ETNs tracking a variety of indexes, including ones related to platinum, cloud computing, and solid state drives.

U.S. ETF Industry Data Dashboard

Morningstar data as of June 1, 2014

Industry Vitals	
Total # of ETPs Currently Listed	1590
ETFs	1389
Total Assets	$1,779,126,205,661
ETNs	201
Total Assets	$25,653,424,988
Total ETP Assets	$1,804,779,630,649

Active ETFs	
Actively managed ETFs	88
Total Assets	$16,014,226,768
% of total ETP assets	0.89%
New Active ETFs Launched in April	0

Coming and Going	May	YTD
New Launches	10	78
Delistings/Closures	2	33
Net Change	8	45
Pending closures	0	

Notable ETF Filings in May
- First Trust filed for the actively managed First Trust Strategic Income Fund
- First Trust filed for the First Trust Dorsey Wright International Focus 5 ETF
- PowerShares filed for the PowerShares LadderRite 0-5 Yr Corporate Bond ETF
- First Trust filed for the First Trust Tactical High Yield ETF
- Van Eck filed for Market Vectors ChinaAMC SME-ChiNext ETF
- First Trust filed for the First Trust Low Duration Mortgage Opportunities ETF
- FlexShares filed for the FlexShares Disciplined Duration MBS Index Fund
- ProShares filed for the ProShares Morningstar Alternatives Solution ETF
- ETF Series Solutions filed for the Deep Value ETF
- Global X filed for the Global X Commodities Strategy ETF
- Global X filed for the Global X Emerging & Frontier Bond ETF
- State Street filed for the SPDR DoubleLine Total Return Tactical ETF
- Destra Capital filed for permission to create index ETFs

Perspective

Shrinking Alpha

Common sources of return can now explain performance that was once attributed to skill.

May 28, 2014

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Over the past two decades, the share of passively managed equity fund assets has risen. While some lament that passive investors have consigned themselves to merely average returns, the truth is that the average has been pretty good. The return of large-cap U.S. stocks has been about 10% per year on an annualized basis since 1926. This is the baseline upon which we can judge the performance of any U.S.-stock fund. In fact, most of the movement of our funds can be explained by exposure to a broad market index. This is called beta in industry parlance. Any additional return that an active portfolio manager might deliver on top of the average is called alpha. If we graph monthly fund returns on a y-axis versus index returns on the x-axis and then fit a line through the points, what we have is a linear model called the capital asset pricing model, or CAPM. The two terms, alpha and beta, refer to the intercept and slope of the line.

Alpha can be an indication of the unique skills a portfolio manager brought to the table. Active managers that can deliver alpha command higher fees, while beta is often obtained through low-cost passive funds. But alpha can also be a sign that the model is incomplete and failed to capture everything going on in the portfolio. As the science of investing has evolved, researchers have uncovered other common sources of return.

The traditional beta from the CAPM indicates the extent to which a portfolio was exposed to the market. But there are other betas. Any characteristic or attribute of our portfolio that is systematically related to risk or return can be accounted for using this statistical approach. Naturally, we want to look for attributes that are associated with return. Value, size, momentum, liquidity, and quality have been identified historically in the data, and there is some theory that suggests these are not spurious relationships. The table below shows the average monthly excess return for the market along with returns from going long a basket of stocks with high values of the factor and short a basket of stocks with low values of the factor. The data are from Andrea Frazzini.

Average Monthly Return

	Broad Market MKT	Small-Cap Stocks Minus Big-Cap Stocks SMB	High Book/Market Stocks Minus Low Book/Market Stocks HML	Up-Momentum Stocks Minus Down-Momentum Stocks UMD	Quality Stocks Minus Junk Stocks QMJ
1956–2012	0.47%	0.28%	0.34%	0.70%	0.40%
2009–2012	0.93%	0.16%	0.05%	0.49%	0.19%

Source: Morningstar.

We analyzed all passive and active funds and ETFs in the U.S.-equity category, first using a single-factor model, also called the CAPM, and then with a multifactor model that includes these other factors. In the next table, we show the average monthly return and standard deviation along with median values for the alpha and betas. We also show the R-squared, which tells us the how good the model is at explaining the movements in our portfolio, and the tracking error, which indicates how much movement in the portfolio the model could not explain.

Passive Versus Active

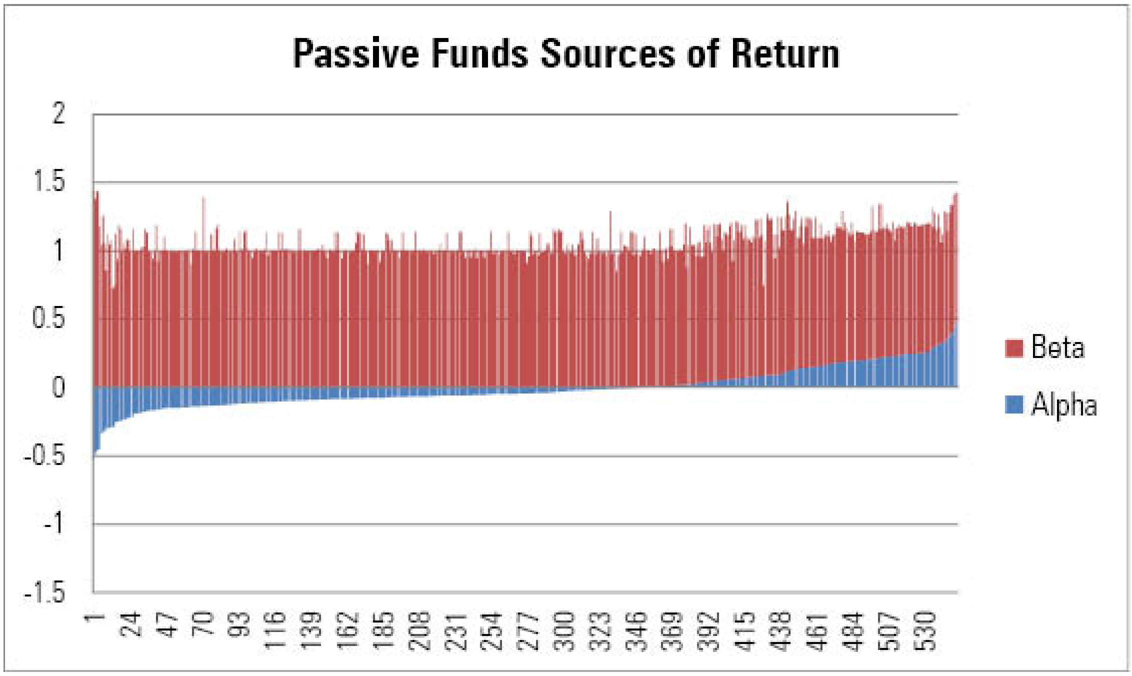
	Passive Funds	Active Funds
Average	1.01	0.91
Standard Deviation	4.89	5.09
Single-Factor Model		
Alpha	0.04	-0.09
MKT Beta	1.04	1.07
R-Squared	0.96	0.94
Tracking Error	0.84	1.22
Multifactor Model		
Alpha	-0.01	-0.04
MKT Beta	1.02	1.01
SMB Beta	0.24	0.23
HML Beta	0.06	-0.15
UMD Beta	0.00	-0.03
QMJ Beta	0.13	-0.04
R-Squared	0.99	0.97
Tracking Error	0.46	0.95

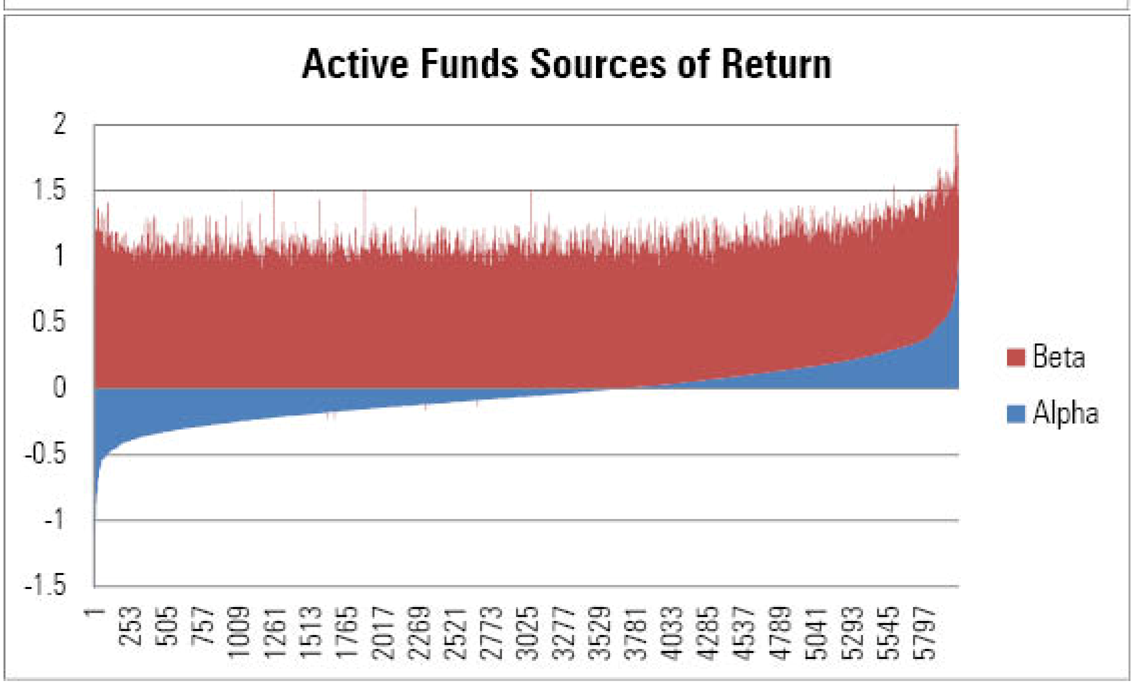
Source: Morningstar. Data from Jan. 1, 2010–Dec 31, 2012.

The average monthly return for passive funds was 1.01%, and the average MKT beta was 1.04. Multiplying that beta times the average return to the MKT factor of 0.93 yields 0.97. Adding in the alpha of 0.04 to 0.97 brings us to the average monthly return of 1.01. Thus, exposure to the market beta provided us with 0.97 of our monthly return, while alpha provided just 0.04.

Moving to the multifactor model, we can decompose the 1.01% monthly return by source by multiplying each beta by the factor returns. Market beta provided 0.95 (beta of 1.02 times factor return of 0.93), while exposure to small-cap stocks provided 0.04 (beta of 0.24 times factor return of 0.16). In the multifactor model, the alpha for passive funds was negative 0.01. Essentially, all of the return was provided by exposure to beta factors.

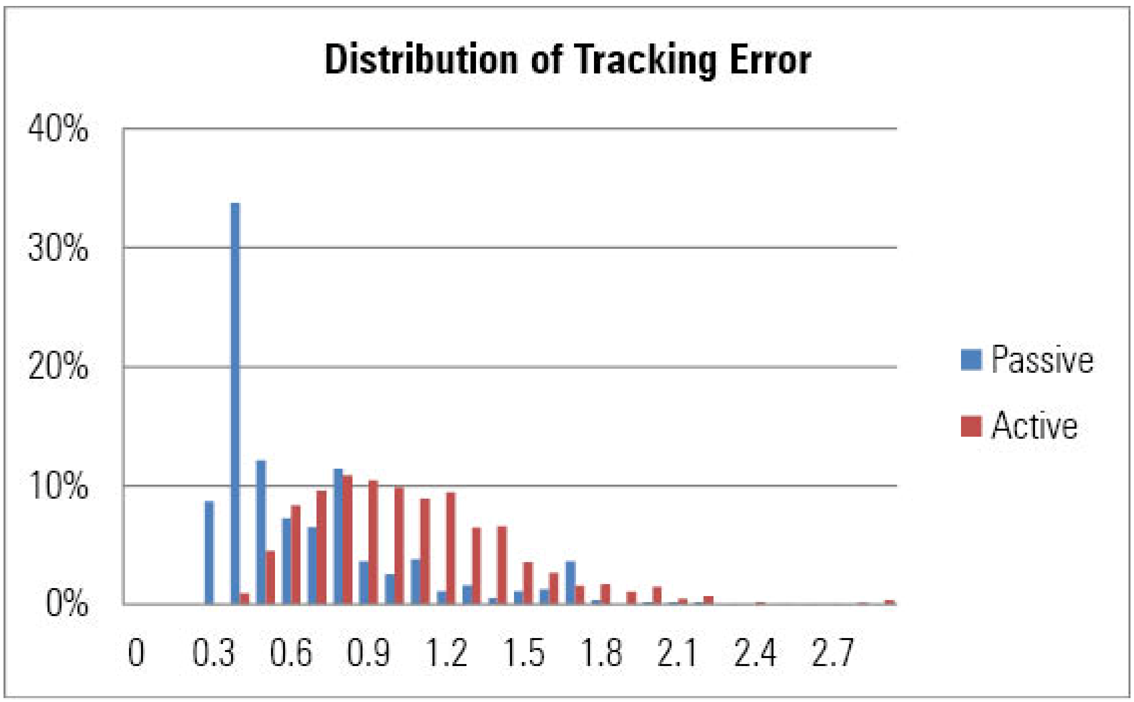
The following two charts show the total monthly return broken out by multifactor beta or by alpha, sorted by alpha.





Old-fashioned market beta provides the bulk of return--hence, our conclusion that investors should be perfectly content with a fund that provides nothing but beta. Having exposure to some strategic beta factors can help on the margin. It is clear that beta provides the majority of return, even among funds that manage to capture significant alpha.

The single-factor model explains roughly 96% of the variation in monthly returns for passive funds and 94% for active funds. When we move to the multifactor model, the explanatory power improves to 99% for passive funds and 97% for active funds. The 99% R-squared for passive funds suggests that almost of the movement in passive funds can be explained by the systematic factors and the residual tracking error is only 0.46. In contrast, active funds have a residual tracking error of 0.95. We expect our active funds to swing for the fences in hopes of earning a high return. Almost all passive funds have very low tracking error, whereas the distribution of tracking error for active funds is much wider. Some active funds have low tracking error and may be closet index funds.



Taking a look at a few specific funds might shed more light on this approach. With its fundamental weighting, PowerShares FTSE RAFI US 1000 (PRF) is often thought of as the prototypical "smart beta" fund. In a single-factor CAPM, the fund has a significant alpha of 0.09% per month. But in the multifactor framework, that alpha is negative, as it has been replaced by tilts to strategic betas.

Gold-rated AMG Yacktman Service (YACKX) had an average monthly return over the period of 0.89%. In the single-factor CAPM, the market beta was 0.71 and the alpha was an astounding 0.23% per month. Multiplying the market beta by the return to beta of 0.93% results in a return to beta of 0.66%. Adding to that the 0.23% alpha equals a 0.89% average monthly return. However, in the multifactor model, we can see that a large share of Yacktman's alpha came from big tilts toward value and quality stocks. Multiplying these betas by the factor returns results in a return contribution from beta factors of 0.98% and an alpha of negative 0.09%.

Return Decomposition for a Sample of Funds

	Vanguard Total Stock Mkt Idx Adm			PowerShares FTSE RAFI US 1000			AMG Yacktman Service		
Average	1.01			1.03			0.89		
	Beta Coeff.	Factor Return	Beta × Factor Return	Beta Coeff.	Factor Return	Beta × Factor Return	Beta Coeff.	Factor Return	Beta × Factor Return
Single-Factor Model									
Alpha	0.07		0.07	0.09		0.09	0.23		0.23
MKT Beta	1.00	0.93	0.93	1.00	0.93	0.93	0.71	0.93	0.66
Sum			1.00			1.03			0.89
Multifactor Model									
Alpha	0.01		0.01	-0.02		-0.02	-0.09		-0.09
MKT Beta	1.03	0.93	0.96	1.02	0.93	0.95	0.89	0.93	0.83
SMB Beta	0.05	0.16	0.01	0.07	0.16	0.01	0.12	0.16	0.02
HML Beta	0.09	0.05	0.00	0.50	0.05	0.02	0.52	0.05	0.02
UMD Beta	0.00	0.49	0.00	0.03	0.49	0.01	-0.04	0.49	-0.02
QMJ Beta	0.12	0.19	0.02	0.25	0.19	0.05	0.66	0.19	0.13
Sum			1.01			1.03			0.89

Source: Morningstar.

The multifactor model used here is by no means perfect. It does not take into account other definitions of value, such as earnings or cash flow, and it does not take into account a manager's ability to time exposures. What it does show is that performance evaluation is getting smarter and that there are low-cost ways to get exposure to systematic characteristics associated with return.

Morningstar has defined strategic beta as any index fund that attempts to improve upon the risk or return characteristics of traditional index alternatives, such as S&P 500 and Russell 2000 Index funds. For example, iShares MSCI USA Momentum Factor (MTUM) attempts to enhance returns by investing in stocks with positive momentum, while PowerShares S&P 500 Low Volatility (SPLV) attempts to reduce risk.

There will often be some gray areas between what might be called strategic beta, traditional index, and even a truly active fund. However, the tools we use to diagnose these products can be applied to any fund, and the outcome can inform our expectations about future performance. Despite the attention alpha receives, beta is the most significant source of return for most funds.

Perspective

A New Frontier for this ETF

Changes in country allocations will reshape this popular frontier-market offering from iShares.

May 21, 2014

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Frontier market stocks, in aggregate, continue to deliver in 2014, even after a very strong 2013. In the year to date, the MSCI Frontier Index is up 16%, far outpacing the MSCI Emerging Markets Index's return of 4%, and the S&P 500's 3%. Among the diversified frontier funds, iShares MSCI Frontier 100 (FM) has been the winner in terms of performance and flows in the first four months of 2014--rising 17% and drawing $320 million. And although FM is only 18 months old, it is currently the third-largest frontier market fund, with more than $800 million in assets. This rapid growth in assets can be attributed to the fund's accessibility, relatively low expense ratio, and strong investor interest in frontier markets during the past two years.

FM is facing a big change in country allocations in the coming months when it will sell its United Arab Emirates and Qatari holdings (which in aggregate account for about 40% of the fund) and allocate these proceeds into existing holdings. The fund will implement this change gradually over the next six months, in an effort to mitigate potential execution challenges, as frontier countries tend to have shallow capital markets. Index-tracking funds that invest in relatively illiquid securities face two key challenges--front-running and market-impact costs. While these execution challenges rest of the shoulders of the managers of this fund, investors in this fund need to re-evaluate the country and company fundamentals of this fund post-change. After the fund completes its transition in November, its country allocations will look very different from what they are today.

Executing the Index Change

FM is a passively managed fund that tracks the market-cap-weighted MSCI Frontier 100 Index, a benchmark of 100 frontier stocks that meet certain liquidity thresholds and have sufficient foreign room (the proportion of shares still available to foreign investors relative to the maximum allowed). In June 2013, MSCI announced that it was going to upgrade United Arab Emirates and Qatar (currently FM's second- and third-largest country allocations at 20% and 19%, respectively) from the MSCI Frontier Index to the MSCI Emerging Markets Index. The addition of these two countries to the MSCI Emerging Markets Index (which together will account for only about 1% of the index) will occur after the market close on May 30. Funds that track this index, such as iShares MSCI Emerging Markets (EEM), will implement this change at the same time. However, given the magnitude of the change for the MSCI Frontier 100 Index, the relatively low liquidity of most frontier markets, and the size of the iShares frontier ETF, MSCI has created a transitional index that will gradually implement this change over a six month time period through November 2014. (Vanguard FTSE Emerging Markets (VWO) employed a similar approach when the fund changed its benchmark to the FTSE Emerging Markets Index, which required it to shed its South Korean holdings).

In addition to lacking depth, frontier markets lack breadth. So not only did MSCI create a six-month transition index for its Frontier 100 Index, it also instituted a few methodology changes for the index on a go-forward basis. With UAE and Qatari stocks out of the index, the pool of potential index constituents decreased significantly. In addition, under the existing methodology, the new index would have significant country concentration, with Kuwait and Nigeria accounting for about 53% of the index. To address these issues, MSCI implemented a number of index methodology changes: first, the index will now consider liquid small caps, second, the index will cap the aggregated weight of the two largest country allocations at 40%, and third, the index will allow the number of constituents to fluctuate between 85 and 115. While market-cap-weighted indexes are typically very straightforward, we can see that in the frontier markets, it is more challenging to ensure that the index is investable and suitably diversified for investors.

Another issue is the risk FM could incur capital gains as it sells its Qatari and UAE holdings. These holdings have rallied strongly over the past year, but it is almost impossible to estimate the potential capital gains from the index change--for example, purchases over 2014 as a result of recent inflows would have seen much less price appreciation. In addition, the Qatari and UAE markets may decline over the next six months as FM sells these securities. However, it is important to note that as of the fund's last fiscal year-end (Aug. 30, 2013), FM had no loss carryforwards. Funds tend to use loss carryforwards to offset taxable transactions due to index changes.

The Investment Case: Before the Index Change

One of the main drivers of the performance of FM during the past year has been the fund's relative overweightings in UAE and Qatari stocks. In the 11 months since MSCI announced that UAE and Qatar were going to be moved to the MSCI Emerging Markets Index, the MSCI UAE Index and MSCI Qatar Index rose 85% and 41%, respectively. Much of this was due to multiple expansion over that time period--the UAE index saw a trailing 12-month price/earnings expansion from 14 times to 21 times, while the Qatar index saw a smaller expansion from 13 times to 16 times. More than half of the Qatari and UAE holdings are in bank and property firms that are currently benefiting from a strong property market and rising infrastructure spending.

But fundamentals do not fully explain this recent rally. As a result of this index change, Qatari and UAE stocks will see much stronger investor interest--according to MSCI, there is about $1.4 trillion benchmarked to the MSCI Emerging Markets Index, about 100 times the $14.5 billion benchmarked to the MSCI Frontier Index. So investors, both domestic and foreign, have piled into these names during the past 11 months to get ahead of this trend. It is also possible that the estimated free float and foreign room of Qatari and UAE names may be overstated (because of inconsistent shareholder reporting). A lower actual free float essentially would have added more fuel to the recent technical, or herd-driven, rally. If this technical rally continues, FM will benefit less as it sheds its exposure to these countries. But more importantly, this highlights the fact that one of the main drivers of the recent rally in MSCI Frontier Index was the MSCI index change, and not necessarily stellar fundamentals.

Finally, it is important to note that enormous outperformance of the MSCI Frontier Markets Index over the MSCI Emerging Markets Index (26% versus negative 3%, respectively) in 2013 was somewhat of an outlier. It is easy to make the assumption that faster economic growth in frontier markets is driving market performance. But if we look at the trailing three- and five-year performance of the two indexes through Dec. 31, 2012 (to remove the effect of 2013), we see that frontier markets' relative performance was much more somber, suggesting that 2013's performance was significantly affected by the technical rally in the Qatari and UAE markets.

Frontier-Markets vs. Emerging-Markets Returns

	MSCI Frontier	MSCI Emerging
One-Year Return 2013	25.9%	-2.6%
Three-Year Return to Dec. 31, 2012	3.1%	4.7%
Five-Year Return to Dec. 31, 2012	-10.9%	-1.0%

Source: Morningstar Direct

The Investment Case: After the Index Change

The change in the MSCI Frontier 100 Index will result in greater geographic diversification. Currently, Gulf Cooperation Council countries comprise about 60% of FM, and this figure will fall to about 35% after Qatar and UAE move out of the index. GCC countries are oil- and gas-producing Arab countries along the Persian Gulf that have high GDP per capita, but underdeveloped capital markets with many restrictions on foreign investors. While greater geographic diversification is important, GCC countries tend to be more stable relative to other frontier markets and peg their currency to the U.S. dollar, which usually result in less performance volatility (in U.S. dollar terms). With a smaller allocation to GCC countries, FM's volatility may rise, especially as its allocation in countries such as Argentina and Kazakhstan (which recently have experienced a spike in foreign exchange volatility) rises.

MSCI Frontier Markets Index Sector Weightings		
Sector	Current	New
Financials	57%	48%
Telecom	14%	16%
Energy	11%	6%
Consumer Staples	8%	14%
Industrials	6%	8%
Materials	3%	5%
Health Care	1%	0%
Utilities	1%	1%
Info Tech	0%	0%
Consumer Discretionary	0%	0%

Source: MSCI

MSCI Frontier Markets Index Country Weightings		
Country	Current	New
Kuwait	20%	27%
UAE	19%	0%
Qatar	19%	0%
Nigeria	11%	13%
Argentina	5%	9%
Pakistan	4%	9%
Kenya	4%	7%
Morocco	3%	7%
Oman	3%	7%
Kazakhstan	3%	5%
Vietnam	2%	4%
Other	7%	13%

Source: MSCI

Kuwait will continue to be the largest country allocation after the index change, but at a larger weighting. Like UAE and Qatar, Kuwait's stock market is dominated by financial-services firms. However, while UAE and Qatar have made international headlines with large infrastructure and real estate projects (such as Dubai Marina and stadiums and related structures for World Cup 2022), infrastructure development and foreign direct investment in Kuwait is relatively less robust due to its unstable, democratic political system. On the positive side, Kuwait may benefit from growing investor interest in GCC countries (whose GDP growth is expected to outpace some of the more established emerging-markets countries such as Brazil and Russia), and the country's plans to liberalize foreign investment restrictions.

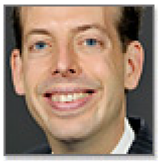
Nigeria, which will be the fund's second-largest country allocation at 13%, is a fairly diverse economy and is expected to see healthy GDP growth in the medium term. Earlier this year, Nigeria became the largest economy in Africa after it rebased its GDP calculation to account for under-represented and faster-growing sectors of the economy, including telecommunications, banking and entertainment. At this time, this fund's Nigerian holdings are primarily banks. The sector is on much more stable footing after reforms and consolidations over the past five years, and the long-term growth outlook is bright. However, the sector has recently been hurt by new regulations, including higher cash reserve requirements, new rules that reduce fees and commissions, as well as a monetary tightening by the central bank. At a national level, presidential elections in 2015, as well as recent high profile terrorist acts suggest that there could be some political instability in the near term, which could negatively affect the local stock market performance.

Perspective

Are Actively Managed Nontransparent ETFs Inching Closer to Reality?

Recent moves from the SEC, ETF providers, and major exchanges indicate a growing interest in cracking the daily disclosure requirement.

June 4, 2014



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For years, traditional open-end mutual fund managers have shied away from offering their actively managed strategies in an exchange-traded fund wrapper for fear of the SEC's requirement that all actively managed ETFs disclose their underlying holdings daily.

Now, a flurry of recent moves by the SEC, various providers, and two major exchanges suggest that those managers' competing desires--to issue their strategies in ETFs while avoiding daily disclosure of their holdings--may well be reconcilable, and soon, in actively managed nontransparent ETFs.

The Dilemma

While the SEC requires actively managed ETFs to disclose their holdings each day, traditional open-end mutual funds must reveal the securities they own only once each quarter with a lag, although some choose to report holdings more frequently. That daily reporting requirement has been enough to dissuade many active managers from dipping their toes in ETF waters--particularly those managing equity portfolios. Many active managers are fearful that daily portfolio disclosure would allow other market participants to either shadow their trading activity or front-run their positions. While we consider both fears to be somewhat overblown, we recognize that this psychological barrier exists for active managers, and it has been a difficult one to surmount.

The result has been that up until now, very few of the 87 actively managed ETFs currently trading hold equities exclusively. Instead, the vast majority of active ETF assets are invested in fixed-income securities. Front-running isn't nearly as much of a concern in the over-the-counter bond market as it is in stocks. The remainder of the active ETF space consists of alternative strategies, fund-of-funds strategies, currency funds (which are considered actively managed by virtue of a technicality), and some other off-the-beaten-path strategies. Notably, not a single star mutual fund manager other than PIMCO's Bill Gross--whose firm's macro philosophy is widely known anyhow, and who has said that it's already fairly widely known what his fund is buying--currently helms an actively managed ETF.

Now, after several years of false starts, some recent activity by the SEC and the exchanges indicates that investors could see actively managed nontransparent ETFs available in the not-too-distant future. Led by fund industry titans State Street (STT), BlackRock (BLK), Vanguard, Eaton Vance (EV), and T. Rowe Price (TROW), the push has gained momentum in recent months. Now, one major regulatory barrier remains: the SEC's 19b-4 process, by which the agency reviews and then decides on major proposed regulatory changes. The SEC's moves suggest to us that launches of actively managed nontransparent ETFs could be imminent. Should one or more of these proposed structures get the go-ahead from the SEC, we anticipate that the active ETF floodgates could open, and far more traditional fund managers may subsequently seek to roll out their strategies in relatively low-cost, tax-efficient ETF wrappers.

What's Going On

To get around the SEC's current daily disclosure requirements for ETFs, issuers are proposing to tap one of two different masking mechanisms. The first involves setting up a blind trust that would be the vehicle for the ETF's market maker or authorized participant to handle orders without disclosing holdings. The second would be used by Eaton Vance's Navigate Fund Solutions subsidiary and based on technology and patents that the firm acquired in November 2010. Dubbed exchange-traded managed funds, or ETMFs, the proposed funds would make use of what's known as NAV-based trading. That would allow investors to buy and sell an actively managed nontransparent ETF all day long, but a fund's market makers would only trade around what is considered to be a "proxy price" aimed at representing the fund's end-of-day net asset value.

Under NAV-based trading, the funds' prices would vary from NAV by a market-determined premium or discount, which could be zero. And even in the absence of full portfolio-holdings disclosure, Eaton Vance believes that its structure would allow market makers to have the opportunity to earn reliable arbitrage profits on ETMFs, thus keeping the funds trading at consistently tight spreads.

Who's Involved

The first provider to request permission to create actively managed nontransparent ETFs was Vanguard, which in 2007 submitted a request to be permitted to create a nontransparent ETF share class for its existing actively managed mutual funds.

Much time elapsed before any other provider waded into the fray. Next up was BlackRock, which in September 2011 submitted a filing to the SEC seeking for its Spruce ETF Trust to be permitted to create 13 nontransparent active ETFs. According to BlackRock's filing, the blind trust would effectively behave as an authorized participant, exchanging fund shares and portfolio securities with the proposed Spruce ETFs, allowing the proposed funds' shareholders to enjoy the same in-kind tax benefits that other ETF investors typically enjoy (because transactions are considered to be in-kind, with securities exchanged for securities, ETF investors experience no tax hit). The proposed ETFs would display their holdings just once every three months but would release the intraday indicative value to the market every 15 seconds in order to allow for authorized participants to keep tight spreads.

Then, in March 2013, Eaton Vance submitted its application with the SEC for its proposed ETMFs, which would mirror existing Eaton Vance mutual funds and use Navigate Fund Solutions' technology, which Eaton Vance acquired from ETF product-development expert and consultant Gary Gastineau. In June 2013, State Street submitted a similar application, spelling out its hopes to utilize a blind trust. Three months after that, T. Rowe Price filed with the SEC seeking permission to offer actively managed nontransparent ETFs. Instead of using a blind trust, T. Rowe Price wrote in its filing that it would offer other information, such as a hedge portfolio and an indicative NAV, that it believed would be enough to allow for tight spreads and regular creations and redemptions.

Most recently, Precidian Investments submitted paperwork in January seeking to issue actively managed nontransparent ETFs, also using a blind-trust structure similar to the one that BlackRock has proposed.

The SEC finally has begun to take up these applications, and the exchanges have become involved. The agency reportedly has told the ETF providers that it will process their applications once they find an exchange to list their products. So in late January, the New York Stock Exchange's parent asked the SEC for permission to list actively managed nontransparent ETFs. A few weeks later, Nasdaq's parent made a similar request, seeking permission to list and trade Eaton Vance's ETMFs. So in the coming months, the SEC will have its hands full as it considers the requests of both the providers and the exchanges. At this point, the SEC's division of markets and trading needs to sign off on these requests.

Just How Close Are We?

The SEC has its own timeline, and it's anyone's guess how soon the agency will rule on all existing applications--including from the exchanges. And once those rulings are made, only the ETF providers themselves can know what their individual fund launch plans might be (each fund also would need to go through its own SEC registration process). However, given the recent flurry of activity, it's clear that the providers are taking this process very seriously. As a result, we would expect to see some ETFs placed into registration almost immediately after the SEC gives the go-ahead to the proposed nontransparent structures.

Proposed Actively Managed Nontransparent ETFs

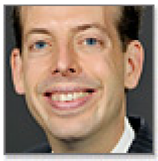
Provider	Proposed ETFs
BlackRock/Spruce	Large Cap
	Large-Cap Value
	Large-Cap Growth
	Large/Mid-Cap
	Large/Mid-Cap Value
	Large/Mid-Cap Growth
	Large-Cap Long-Short
	Large-Cap Value Long-Short
	Large-Cap Growth Long-Short
	Large/Mid-Cap Long-Short
	Large/Mid-Cap Value Long-Short
	Large/Mid-Cap Growth Long-Short
	Large-Cap Growth Active Insights
Eaton Vance	Not disclosed
State Street	SPDR SSgA Equity
	SPDR SSgA Emerging Markets
	SPDR SSgA Aggregate Bond
T. Rowe Price	Not disclosed
Precidian	Precidian U.S. Managed Volatility
	Precidian Strategic Value
	Precidian Large Cap Value
	Precidian Focused Dividend Strategy
	Precidian U.S. Large Cap Growth
	Precidian U.S. Core Equity
	Precidian U.S. Mid Cap Growth
	Precidian Total Return
	Precidian High Dividend Yield
	Precidian Small Cap Dividend Value
	Precidian Multi-factor Small Cap Core
	Precidian Multi-factor Small Cap Growth
	Precidian Large Cap Core Plus 130/30
	Precidian Mid Cap Core Plus 130/30
	Precidian Small Cap Core Plus 130/30

Source: Morningstar.

ETF Spotlights

A Biotech and An India ETF in the Spotlight

Morningstar analyst insight, plus two complimentary full-length ETF research reports.



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iShares Nasdaq Biotechnology IBB

The U.S. biotechnology sector has enjoyed an impressive run during the past decade. The industry has dramatically outperformed the broader market over that time frame and also had a tremendous 2013. Large-cap biotech firms have fueled this rally, as they have scored key drug approvals, reaped strong sales from already-approved drugs, successfully integrated acquisitions, and benefited from a favorable regulatory environment. The sector also has seen valuations surge from merger and acquisition activity, as large pharmaceutical firms have sought to spruce up relatively empty drug pipelines by buying innovation in the form of biotech firms.

The biotech sector's performance has hit a bit of a lull during the past three months, with exchange-traded funds devoted to the biotech sector sliding anywhere from 8% to 20%, even as the broader market has risen nicely. The sector has been pressured by pricing concerns that were sparked by Gilead Sciences' (GILD) launch of a popular hepatitis drug. That release sparked congressional interest in justifying the pricing for the drug. In addition, a large pharmacy benefit manager began openly discussing restricting the use of that drug once competition enters the market late this year. Those two actions sent ripples throughout the entire industry, making investors fearful of potentially increased governmental regulations on pricing and PBMs' increased leverage for discounting in the private market. The recent price pressure may present a buying opportunity for investors interested in biotech firms.

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iShares MSCI India INDA

Investors love a good reform story. Last year, major reforms in Japan and Mexico captured investors' attention. This year, stocks in India and Indonesia have rallied in anticipation that a more business-friendly, reform-minded leader will soon be elected.

Last week, the Bharatiya Janata Party won a large majority in India's lower house of parliament, and it is expected that Narendra Modi will be selected to serve as India's 14th prime minister. Modi is currently the leader of the state of Gujarat, which has recently seen strong growth thanks to Modi's policies, which fostered a more business-friendly regulatory environment and large investments in infrastructure. Modi's leadership record and the BJP's relatively large majority win, which should make it easier to push through difficult reforms, have helped drive a strong market rally. For the year to date, Indian stocks have risen 12% in local-currency terms (as measured by the MSCI India Index), but thanks to a strengthening Indian rupee, the MSCI India Index (in U.S.-dollar terms) has climbed 18%.

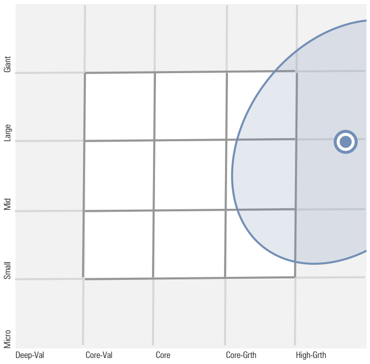
At this time, the MSCI India Index is trading at a forward price/earnings ratio of 15 times, which is in line with the index's 10-year average. While some optimism about India's future may be justified, corporate India continues to grapple with many challenges in the near term, including above-target inflation, a high cost of capital, weak infrastructure, restrictive and outdated labor laws, and slowing gross domestic product growth. Stronger corporate earnings growth as a result of anticipated reforms may take a few years to materialize.

iShares Nasdaq Biotechnology IBB

Morningstar Rating™ ★★★★

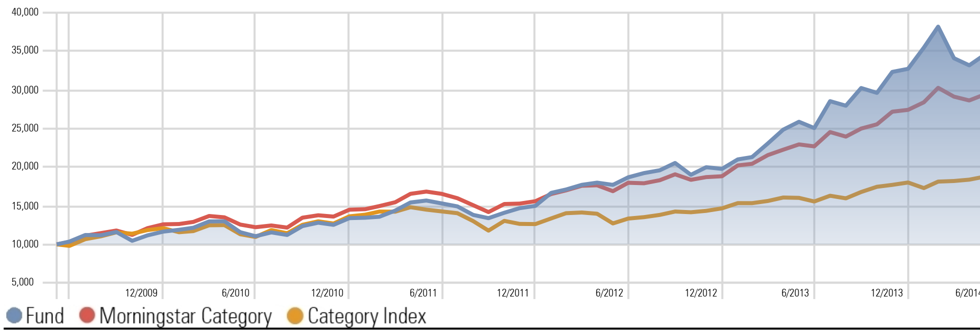
Morningstar Category	Category Index	Prospectus Benchmark
US ETF Health	MSCI ACWI NR USD	NASDAQ Biotechnology TR USD

Style Map



Performance

Time Period: 6/6/2009 to 6/5/2014



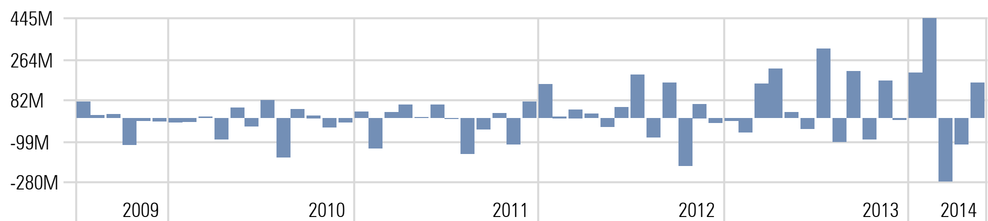
Snapshot

Inception Date	2/5/2001
Expense Ratio %	0.48
Assets (millions)	5,070
Avg Dly Vol (3 Mo)	2,467,059
12 Month Yield %	0.03
Portfolio Date	6/5/2014
Distribution Freq	Quarterly
ETN	No
Replication Method	Physical-Sample
Fund Lgl Structure	Open Ended Investment Company

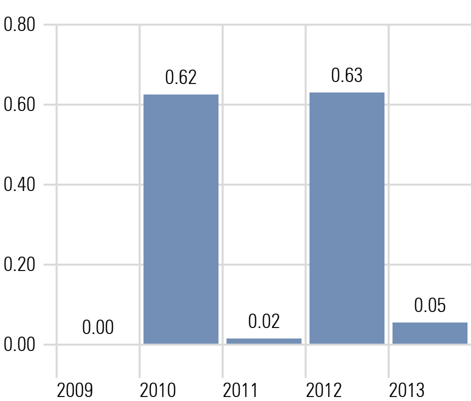
Annual Returns %

	2009	2010	2011	2012	2013	YTD
iShares Nasdaq Biotechnology	15.48	14.92	11.86	31.96	65.47	8.06
MSCI ACWI NR USD	34.63	12.67	-7.35	16.13	22.80	4.90
US ETF Health	26.33	15.01	7.60	20.72	45.65	8.78

Monthly Fund Flows (millions)



Annual Income Return %



Risk/Return Analysis (3 years)

	ETF	Cat Index	Cat Avg
Standard Deviation %	18.90	14.33	15.30
Arithmetic Mean %	2.37	0.80	1.60
Sharpe Ratio	1.50	0.67	1.32
R-Squared	27.87	—	51.35
Beta	0.70	—	0.74
Alpha %	21.64	—	12.12
Treynor Ratio	43.24	—	27.76
Sortino Ratio	2.95	1.01	2.72

Suitability

By Robert Goldsborough 4/16/2014

Investors seeking exposure to the highly uncertain but potentially promising prospects of the biotech industry can consider adding iShares Nasdaq Biotechnology to their portfolios as a tactical satellite position to a diversified equity portfolio. This exchange-traded fund holds 121 biotech firms listed on the Nasdaq with market caps of at least $200 million. More than 20% of assets are small-cap names applying innovative techniques to research, develop, and commercialize various drugs targeting certain diseases or therapeutic niches. The jarring pace of change, single-product liability, regulatory uncertainties, and intellectual property rights make picking stocks in the biotech sector a high-risk/high-reward proposition. As such, we think investing in the industry via an ETF makes a lot of sense; it's a low-cost way to gain diverse exposure to the industry in one trade. And this particular ETF may be best suited for investors looking for as much diversification as possible; it has the broadest number of holdings of any biotech ETF currently trading.

Unlike several competing biotech ETFs that track equal-weight indexes, this fund tracks a market-cap-weighted index, which ensures that the more-established, larger-cap biotech firms hold more sway. As a result, IBB has been less volatile over the past five years than any other biotech ETF and has been less volatile than all but one actively managed, biotech mutual fund. While an equal-weight strategy may sound like a reasonable choice for a lotterylike industry such as biotechnology, a cap-weighted strategy has resulted in better risk-adjusted returns over the past five and 10 years.

iShares Nasdaq Biotechnology IBB

Morningstar Rating™
★★★★

Morningstar Category	Category Index	Prospectus Benchmark
US ETF Health	MSCI ACWI NR USD	NASDAQ Biotechnology TR USD

Fundamental View

To win regulatory approval for a drug, a biotech company must take its therapy through a 10- to 15-year research and development gauntlet in a process that costs $1 billion on average. After all that, success rates are low. Only about 20% of drugs reaching Phase I of clinical development ever actually hit the market. With all these factors, many smaller biotech firms don't turn a profit. Many give up their drugs' marketing rights to industry giants in exchange for royalties on sales and even cash upon reaching certain development milestones. The upshot: A biotech firm that can successfully bring its products to market will reap bountiful rewards, grow significantly, and create an instant economic moat.

Led by large-cap biotechs, the shares of biotech firms have dramatically outperformed the broader market over the past five years. The firms at the top of this ETF, such as Regeneron REGN, Biogen BIIB, Celgene CELG, Gilead GILD, and Amgen AMGN, have led the rally, benefiting from key drug approvals, strong sales of already-approved drugs, an attractive regulatory environment, and successful integrations of the acquisitions of smaller players. Acquisitions by large pharmaceutical companies also have fueled the biotech space's performance, as Big Pharma has sought to improve its relatively empty drug pipelines in part by buying up biotech firms. That has culminated in deals such as GlaxoSmithKline's GSK acquisition in 2012 of Human Genome Sciences. Given Big Pharma's flush balance sheets, we expect more biotechs to be acquired by large pharmaceutical firms in the near term.

One issue facing the biotech industry is health-care reform. Medicaid started covering more people in 2014, which should be a positive for volumes and the drug industry. On the negative side, higher rebates already are in place for Medicaid patients, which means biotechs will see lower net prices for their drugs.

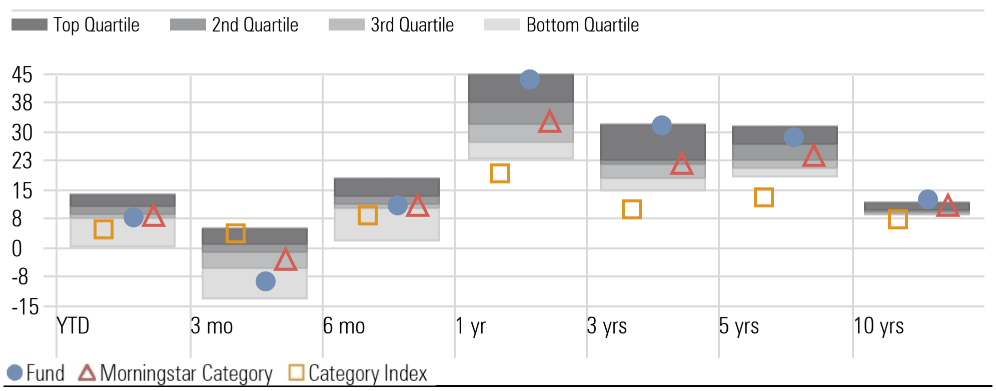
From a reimbursement standpoint, we like that most biotechs tend to focus on biologics that address serious, chronic, or life-threatening illnesses; this means that both government and private insurers will in fact reimburse as medical benefits the highly profitable infused drugs approved to treat major ailments. We also like that biotechs remain less vulnerable to generic competition than Big Pharma because of the difficulty of manufacturing, the cost of clinical trials, and the still-developing pathway for these products in the United States.

In our view, the biotech industry is much less susceptible to government intervention than other health-care subsectors--like hospital operators or MCOs. And we think an ETF is the appropriate tool for investing in this notoriously volatile subsector. One drug's odds of success typically have no bearing on another's; we like the diversification among individual firms that this fund offers, which helps protect against single-stock risk.

We're still cognizant that roughly half of this fund's holdings are early-stage players with no drug on the market yet. These smaller firms, with decidedly uncertain prospects but explosive upside potential, loom large. Bimodal businesses like upstart biotech firms--which are plentiful here--are very difficult to forecast, subjecting any fair value estimates to significant uncertainty. Thus, we'd demand a wide margin of safety before investing here.

Trailing Returns Relative to Peer Group %

Peer Group (5-95%): Exchange Traded Funds - U.S. - Health



	YTD	3 mo	6 mo	1 yr	3 yrs	5 yrs	10 yrs
iShares Nasdaq Biotechnology	8.06	-8.62	11.34	44.01	32.15	28.73	12.66
MSCI ACWI NR USD	4.90	4.08	8.67	19.63	10.08	13.56	7.54
US ETF Health	8.78	-2.69	11.35	33.26	22.07	24.42	11.24

Morningstar Fundamental Analysis

Fair Value Estimate	237.10
Valuation Rating	Fairly Valued
Price/Fair Value	1.03
# of Holdings Covered	26
# of Holdings	123

Economic Moat %

Wide Moat	25.19
Narrow Moat	35.20
No Moat	12.92

Fundamental Ratios

	ETF	Cat Index	Cat Avg
Net Margin %	9.94	13.83	8.95
Return on Equity %	7.22	17.66	12.48
Return on Assets %	1.37	6.89	-0.55
Debt to Capital %	37.20	33.86	34.07

Value and Growth Measures

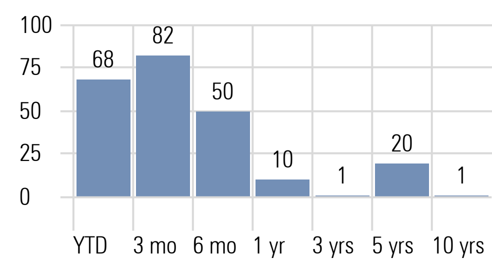
	ETF	Cat Index	Cat Avg
Price/Proj. Earnings	33.80	16.57	25.67
Price/Book	6.96	1.99	5.10
Price/Sales	7.95	1.33	3.60
Price/Cash Flow	24.46	9.70	18.56
LT Earnings Growth %	17.62	10.25	31.36
Sales Growth %	13.21	-25.76	24.99
Cash Flow Growth %	14.50	0.90	25.16
Book Value Growth %	10.58	-16.56	20.55

Market Performance Statistics

Time Period: 2/6/2001 to 6/5/2014

	ETF	Cat Index	Cat Avg
Up Capture Ratio %	108.20	100.00	88.77
Down Capture Ratio %	106.23	100.00	85.65
Max Drawdown %	-63.00	-40.98	-45.73
Max Gain %	587.02	217.06	367.89
Best Month %	18.97	11.80	11.45
Worst Month %	-20.39	-19.82	-16.10

Total Return Percentile Rank in Category



iShares Nasdaq Biotechnology IBB

Morningstar Rating™
★★★★

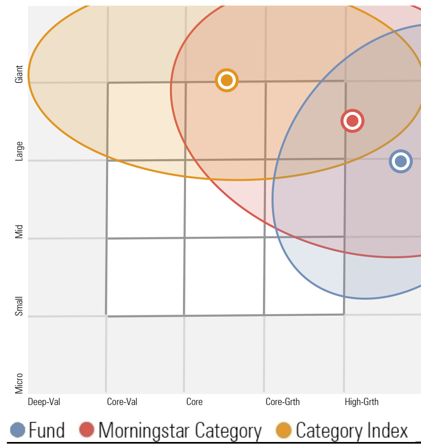
Morningstar Category	**Category Index**	**Prospectus Benchmark**
US ETF Health	MSCI ACWI NR USD	NASDAQ Biotechnology TR USD

Portfolio Construction

This ETF tracks the Nasdaq Biotechnology Index, which encompasses 121 Nasdaq-listed stocks that are either biotechnology or pharmaceuticals firms, as defined by the FTSE and Dow Jones' Industry Classification Benchmark. As a practical matter, this ETF is both in name and focus a biotech-heavy ETF, with about 78.5% of the assets in this ETF invested in firms that are classified as operating in biotechnology. The remaining 21.5% of assets are invested in small- and mid-cap pharmaceutical firms such as Mylan MYL, Salix SLXP, and Theravance THRX; the U.S.' largest pharmaceutical firms trade on the New York Stock Exchange.

IBB's index is one of eight subsectors that make up the Nasdaq Composite Index. While each firm must have an average daily trading volume of at least 100,000 shares and a minimum market cap of $200 million, the portfolio spreads its assets across the market-cap range, with about 57.5% of assets in large caps, 21.5% in mid-caps, and 21% in small caps. The fund tracks a cap-weighted index and invests almost 58% of assets in its top 10 holdings. The holdings-weighted average market cap is $14 billion.

Holdings Based Style Map

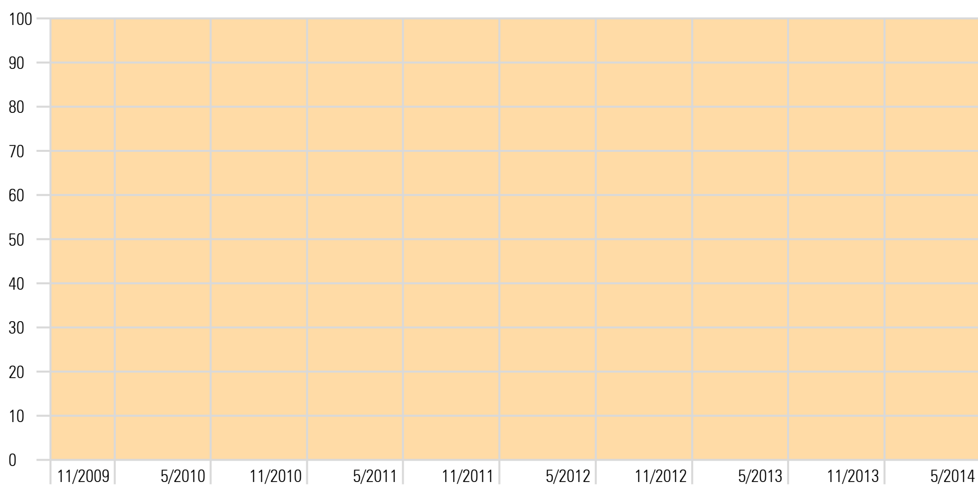


	ETF	Cat Index	Cat Avg		ETF	Cat Index	Cat Avg
Avg Market Cap (mil)	15,225	44,800	28,363	Turnover Ratio %	39.00	—	27.97
12 Month Yield %	0.03	—	—	% Asset in Top 10	58.79	8.31	48.79
Market Price	246.09	190.98	—	# of Holdings	123	2,433	290

Market Cap %

	ETF	Cat Index	Cat Avg
Giant	24.77	52.87	48.58
Large	33.96	34.68	15.42
Mid	20.80	12.39	17.46
Small	11.85	0.07	15.20
Micro	8.62	0.00	3.33

Equity Sector Breakdown History



Current Equity Sector Breakdown %

	ETF	Cat Index	Cat Avg
Basic Materials	0.00	6.31	0.07
Consumer Cyclical	0.00	10.39	0.06
Financial Services	0.00	18.88	0.02
Real Estate	0.00	2.71	0.02
Consumer Defensive	0.00	10.03	0.55
Healthcare	100.00	10.58	97.05
Utilities	0.00	3.28	0.00
Communication Services	0.00	4.97	0.00
Energy	0.00	10.00	0.00
Industrials	0.00	10.71	0.91
Technology	0.00	12.14	1.34

Top 10 Holdings

Portfolio Date: 6/5/2014

	Ticker	Portfolio Weighting %
Celgene Corp	CELG	8.62
Gilead Sciences Inc	GILD	8.57
Amgen Inc	AMGN	8.13
Biogen Idec Inc	BIIB	8.05
Alexion Pharmaceuticals Inc	ALXN	7.23
Illumina Inc	ILMN	4.10
Regeneron Pharmaceuticals Inc	REGN	3.98
Vertex Pharmaceuticals Inc	VRTX	3.87
Mylan Inc	MYL	3.84
Endo International PLC	ENDP	2.41

Equity Region %

	ETF	Cat Index	Cat Avg
North America	94.42	52.08	89.74
Latin America	0.00	1.70	0.09
Japan	0.00	7.06	0.49
Australasia	0.00	2.99	0.25
Asia Developed	0.00	4.58	0.01
Asia Emerging	0.08	3.61	0.18
United Kingdom	1.48	8.27	1.60
Europe Developed	4.02	17.76	7.07
Europe Emerging	0.00	0.93	0.00
Africa/Middle East	0.00	1.03	0.58

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Morningstar Category	Category Index	Prospectus Benchmark
US ETF Health	MSCI ACWI NR USD	NASDAQ Biotechnology TR USD

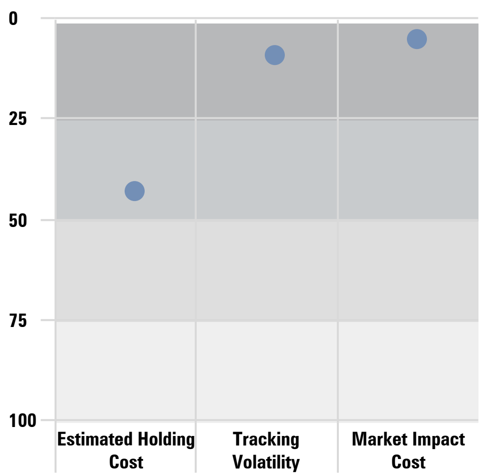
Fees

The fund's 0.48% expense ratio is reasonable, but cheaper ETF options exist. For instance, both SPDR S&P Biotech XBI and Market Vectors Biotech ETF BBH charge just 0.35%. Still, we think that IBB's price tag is quite reasonable given the biotech-industry diversification that it offers investors. What's more, IBB's estimated holding cost is a more attractive 0.28%. Estimated holding costs are primarily composed of the expense ratio but also include transaction costs, sampling error, and share-lending revenue.

Expenses

	ETF	Cat Avg
Gross Expense Ratio %	0.48	0.44
Net Expense Ratio %	0.48	0.43
Expense Waiver	—	—
Expense Waiver Expiration Date	—	—
Expense Waiver Type	—	—
Prospectus Date	8/1/2013	—

Percentile Rank Relative to ETF Universe



Total Cost Analysis Data Points

Estimated Holding Cost %	0.26
Tracking Volatility %	0.03
Market Impact Cost %	0.00

Estimated Holding Cost is essentially the difference between the ETF return and the benchmark return and represents the realized cost of replicating the benchmark. Lower costs indicate that the ETF is doing a better job of matching its benchmark while minimizing costs.

Tracking Volatility measures the uncertainty with which an ETF tracks a benchmark. A higher tracking error indicates a wider confidence interval for expected performance around the benchmark. Lower numbers and ranks are better.

Market Impact Cost represents the liquidity of the ETF and is based on the average market price movement in percent caused by a $100,000 trade in the ETF. Calculated as the residual volatility unexplained by movements in NAV and the previous day's premium or discount, scaled by average dollar volume traded. Lower numbers and ranks are better.

Alternatives

Investors seeking exposure solely to biotechs also can consider SPDR S&P Biotech XBI (0.35% expense ratio), which is a fairly concentrated, equal-weight portfolio. While its expense ratio is reasonable, XBI has lagged many peers across different time frames. XBI's 82-stock portfolio sports a holdings-weighted average market cap of $1.8 billion.

An even more concentrated option is First Trust NYSE Arca Biotechnology Index FBT (0.60%), which has posted solid performance over the past five years. However, its performance has trailed IBB over the past few years, and it has displayed much greater volatility than IBB. It's also fairly pricey. FBT holds 20 biotech firms and clocks in at an average market cap of $9.0 billion.

Two other ETF options are PowerShares Dynamic Biotech & Genome PBE (0.63%) and Market Vectors Biotech BBH (0.35%). The Market Vectors ETF is more of a traditional cap-weighted fund, holding the largest biotechs (think Amgen, Gilead, Celgene, and Biogen). As a result, BBH's portfolio of 25 biotech stocks has an average market cap of $22.0 billion. For a quantitative-active approach to the biotech subsector, investors also can consider PBE, which holds 30 names and has an average market cap of $6.3 billion.

There also are several actively managed, open-end mutual funds offering exposure to biotech that investors might want to consider. These include Bronze-rated Fidelity Select Biotechnology FBIOX (0.79%), Rydex Biotechnology RYBOX (1.61%), and Franklin Biotechnology Discovery FBDIX (1.20%). However, these funds' performance largely has been comparable to IBB's, both in recent periods and over three- and five-year time frames, although the Rydex fund has lagged meaningfully over the past year.

Operations

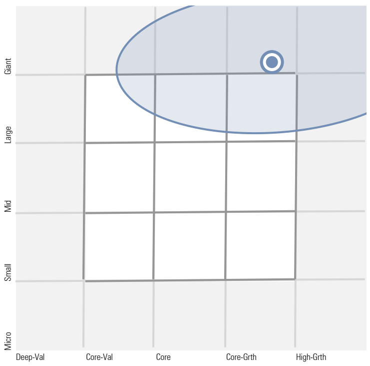
Longest Tenured Manager	Multiple
Manager Tenure (Longest)	6.42
Manager Tenure (Average)	3.85
Exchange	NASDAQ
Web Address	www.ishares.com

iShares MSCI India INDA

Morningstar Rating™

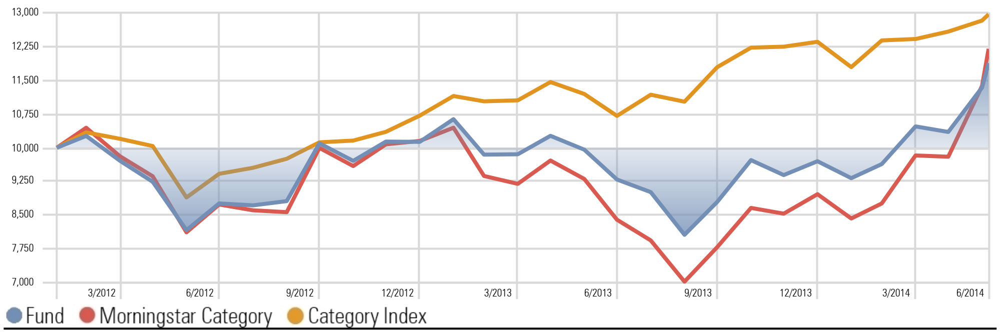
Morningstar Category	Category Index	Prospectus Benchmark
US ETF India Equity	MSCI ACWI Ex USA NR USD	MSCI India NR USD

Style Map



Performance

Time Period: 2/3/2012 to 6/6/2014



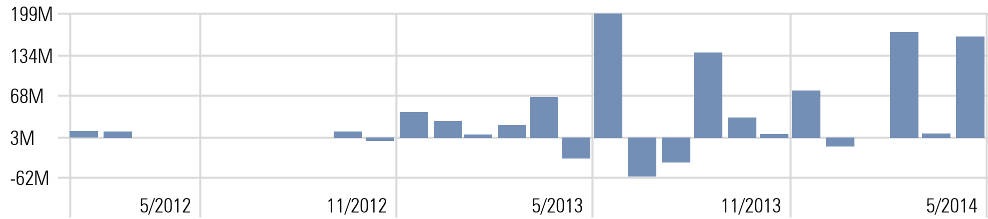
Snapshot

Inception Date	2/2/2012
Expense Ratio %	0.67
Assets (millions)	1,337
Avg Dly Vol (3 Mo)	518,102
12 Month Yield %	0.53
Portfolio Date	6/6/2014
Distribution Freq	Semi-Annually
ETN	No
Replication Method	Physical-Sample
Fund Lgl Structure	Open Ended Investment Company

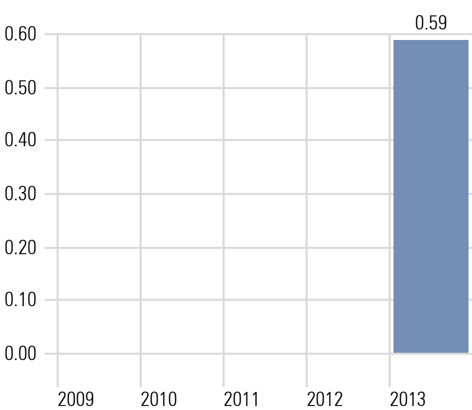
Annual Returns %

	2009	2010	2011	2012	2013	YTD
iShares MSCI India	—	—	—	—	-4.24	22.44
MSCI ACWI Ex USA NR USD	41.45	11.15	-13.71	16.83	15.29	4.93
US ETF India Equity	96.80	15.46	-42.33	29.07	-11.63	35.92

Monthly Fund Flows (millions)



Annual Income Return %



Risk/Return Analysis (3 years)

	ETF	Cat Index	Cat Avg
Standard Deviation %	—	16.59	33.69
Arithmetic Mean %	—	0.49	0.17
Sharpe Ratio	—	0.35	0.07
R-Squared	—	—	51.31
Beta	—	—	1.44
Alpha %	—	—	-6.42
Treynor Ratio	—	—	-2.24
Sortino Ratio	—	0.50	0.10

Suitability

By Patricia Oey 5/22/2014

IShares MSCI India INDA tracks a cap-weighted index and can be used to achieve exposure to consumer- and investment-driven growth in India. It is appropriate for use as a satellite holding.

The Indian stock market is one of the more volatile among its emerging-markets peers. Indian equities, as measured by the MSCI India Index in U.S. dollars, have had a five-year annualized standard deviation of returns of 30%, which is more than double that of the S&P 500 over the same span. And like most funds that invest in foreign equities, this exchange-traded fund does not hedge its foreign-currency exposure, so its returns reflect both the change in value of the underlying assets as well as the change in the Indian rupee against the U.S. dollar.

There are many factors that drive the volatility of Indian equities. India has a heavy dependence on foreign fund flows for investment and growth. When markets are in a risk-off mode, or when investors become concerned about a potential stall in economic reforms or a deterioration in macroeconomic fundamentals, foreign funds quickly flow out of Indian equities, which tend to have low floats. These factors, combined with India's current account deficit, drive volatility in the Indian rupee and, therefore, the returns of this fund. India also has a notoriously unfriendly business environment and is plagued by widespread corruption.

iShares MSCI India INDA

Morningstar Rating™

Morningstar Category	Category Index	Prospectus Benchmark
US ETF India Equity	MSCI ACWI Ex USA NR USD	MSCI India NR USD

Fundamental View

For much of the past two decades, India's annual economic growth rates were in the mid- to high single digits. Much of this growth was spurred by "big bang" economic liberalization, which began in 1991. These reforms included the opening up of foreign investment and trade, privatization, improved regulation, and capital-market reforms. Even during the 2008 global financial crisis, India was able to continue growing at around 6% because of the economy's lower exposure to exports (relative to other emerging-markets countries), stimulative fiscal and monetary policies, and stable growth in domestic consumption.

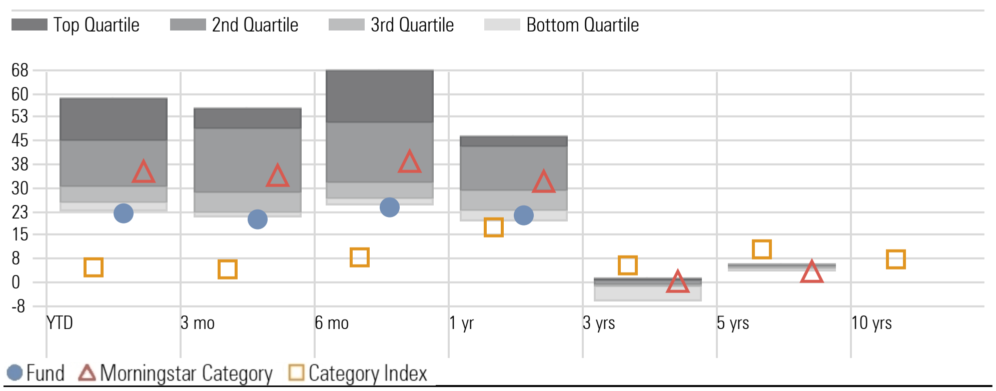
However, relative to China, India's growth has lagged for a number of reasons, including significantly lower levels of foreign direct investment and very poor infrastructure, in part because of India's legendary red tape. In the second half of 2012, the Indian government approved of a new law that would allow foreign companies to hold a 51% stake in multibrand retailers. But additional rules, such as local sourcing requirements and large commitments for infrastructure spending, and the potential for an additional layer of state-level regulations resulted in very low interest by global retailers. To date, only U.K.'s Tesco has made a commitment to enter the Indian market.

At the general elections that took place in the spring of 2014, the Bharatiya Janata Party won a large majority in India's lower house of parliament and selected Narendra Modi to serve as India's 14th prime minister. Modi was the leader of the state of Gujarat, which has recently seen strong growth thanks to Modi's policies, which fostered a more business-friendly regulatory environment and large investments in infrastructure. Modi's leadership record and the BJP's relatively large majority win, which should make it easier to push through difficult reforms, have helped drive a strong market rally. At the time of writing, the MSCI India Index is trading at a forward price/earnings ratio of 15 times, which is in line with the index's 10-year average. While some optimism about India's future may be justified, corporate India will continue to grapple with many challenges in the near term, and stronger corporate earnings growth as a result of anticipated reforms may take a few years to materialize.

On a macro level, there continues to be many obstacles to India's growth. Bewildering government bureaucracy, poor infrastructure, widespread poverty, and low literacy rates will weigh on growth. The industrials sector, which accounts for about 20% of India's economy, is burdened by highly restrictive labor laws, unstable power infrastructure, and complicated tax rules. The agriculture sector, which accounts for about 20% of the economy but employs about 50% of the population, is highly inefficient. Also, India imports about 70% of its domestic oil needs, which the government and the petroleum industry partially subsidize. A significant increase in the price of oil would weigh on India's public budgets and current account deficit and drive inflation. Finally, job growth continues to be weak, which is a significant economic and social problem, especially given India's relatively young population.

Trailing Returns Relative to Peer Group %

Peer Group (5-95%): Exchange Traded Funds - U.S. - India Equity



	YTD	3 mo	6 mo	1 yr	3 yrs	5 yrs	10 yrs
iShares MSCI India	22.44	20.18	23.95	21.35	—	—	—
MSCI ACWI Ex USA NR USD	4.93	4.24	7.99	18.10	5.72	10.56	7.92
US ETF India Equity	35.92	34.14	38.96	32.15	0.61	4.14	—

Morningstar Fundamental Analysis

Fair Value Estimate	—
Valuation Rating	—
Price/Fair Value	—
# of Holdings Covered	—
# of Holdings	70

Economic Moat %

Wide Moat	—
Narrow Moat	—
No Moat	—

Fundamental Ratios

	ETF	Cat Index	Cat Avg
Net Margin %	16.93	13.61	17.59
Return on Equity %	23.31	15.00	21.93
Return on Assets %	12.83	5.84	11.07
Debt to Capital %	35.86	31.40	33.51

Value and Growth Measures

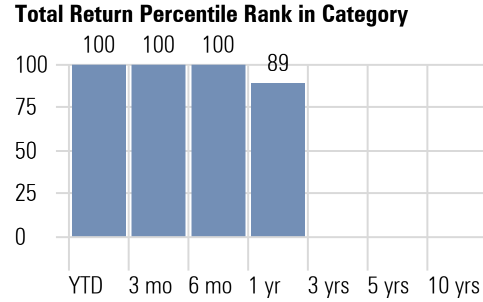
	ETF	Cat Index	Cat Avg
Price/Proj. Earnings	17.24	14.97	16.49
Price/Book	2.54	1.60	2.42
Price/Sales	1.56	1.08	1.45
Price/Cash Flow	10.69	8.50	10.40
LT Earnings Growth %	15.12	10.24	16.65
Sales Growth %	15.56	-30.92	20.38
Cash Flow Growth %	13.10	-3.02	17.56
Book Value Growth %	14.06	-21.34	16.82

Market Performance Statistics

Time Period: 2/3/2012 to 6/6/2014

	ETF	Cat Index	Cat Avg
Up Capture Ratio %	82.35	100.00	82.23
Down Capture Ratio %	84.94	100.00	83.22
Max Drawdown %	-29.19	-16.07	-38.73
Max Gain %	57.75	48.71	83.96
Best Month %	14.53	6.95	16.63
Worst Month %	-11.60	-11.36	-13.27

Total Return Percentile Rank in Category



iShares MSCI India INDA

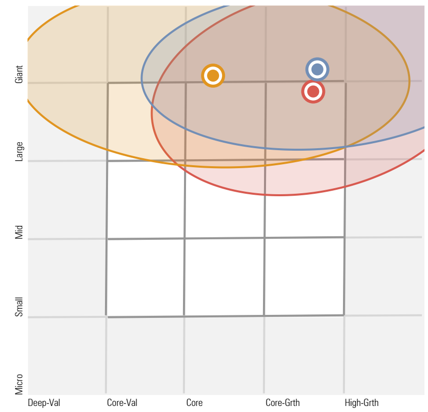
Morningstar Rating™

Morningstar Category	**Category Index**	**Prospectus Benchmark**
US ETF India Equity	MSCI ACWI Ex USA NR USD	MSCI India NR USD

Portfolio Construction

This fund tracks the MSCI India Index, which is a free float-adjusted market-capitalization-weighted index designed to measure the performance of equity securities of companies whose market capitalization represent the top 85% of companies in the Indian securities market. The fund employs full replication to track its index.

Holdings Based Style Map

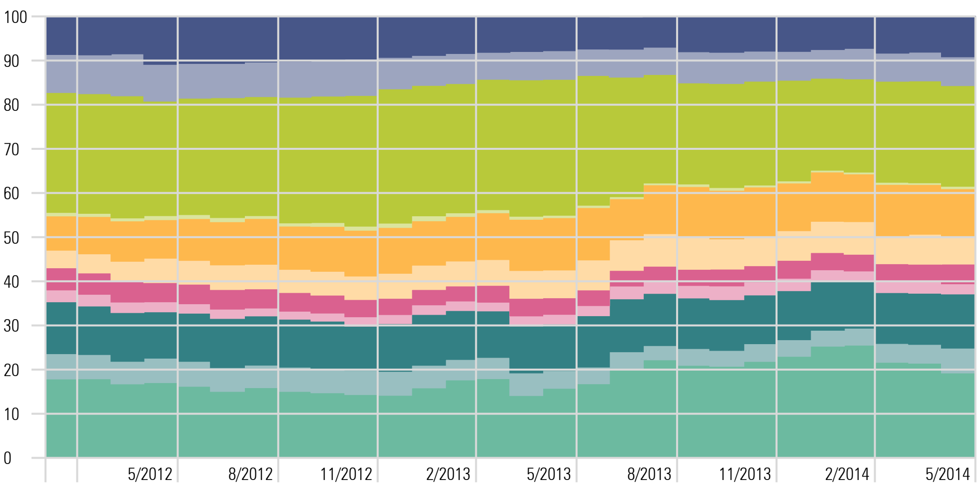


	ETF	Cat Index	Cat Avg		ETF	Cat Index	Cat Avg
Avg Market Cap (mil)	17,615	32,788	10,579	Turnover Ratio %	176.00	—	58.94
12 Month Yield %	0.53	—	—	% Asset in Top 10	49.05	9.41	41.06
Market Price	30.44	209.52	—	# of Holdings	70	1,824	260

Market Cap %

	ETF	Cat Index	Cat Avg
Giant	62.45	57.41	53.22
Large	36.43	33.12	30.21
Mid	1.12	9.37	13.70
Small	0.00	0.10	2.73
Micro	0.00	0.00	0.14

Equity Sector Breakdown History



Current Equity Sector Breakdown %

	ETF	Cat Index	Cat Avg
Basic Materials	8.09	9.15	8.67
Consumer Cyclical	6.50	10.08	10.85
Financial Services	23.08	23.55	24.92
Real Estate	0.40	3.02	0.94
Consumer Defensive	11.26	9.95	7.85
Healthcare	6.79	8.37	6.50
Utilities	3.99	3.39	3.01
Communication Services	2.59	5.66	3.60
Energy	11.59	9.38	9.96
Industrials	4.26	10.25	7.37
Technology	21.47	7.20	16.33

Top 10 Holdings

Portfolio Date: 6/6/2014

	Ticker	Portfolio Weighting %
Reliance Industries Ltd	RELIANCE	8.65
Housing Development Finance Corp Ltd	HDFC	8.26
Infosys Ltd	INFY	8.23
Tata Consultancy Services Ltd	TCS	5.84
ITC Ltd	ITC	4.47
Larsen & Toubro Ltd	LT	3.18
Hindustan Unilever Ltd	HINDUNILVR	2.89
Sun Pharmaceuticals Industries Ltd	SUNPHARMA	2.59
Mahindra & Mahindra Ltd	M&M	2.49
State Bank of India	SBIN	2.44

Equity Region %

	ETF	Cat Index	Cat Avg
North America	0.00	7.51	1.33
Latin America	0.00	3.34	0.00
Japan	0.00	13.89	0.00
Australasia	0.00	5.89	0.00
Asia Developed	0.00	8.90	0.00
Asia Emerging	100.00	7.10	98.67
United Kingdom	0.00	15.77	0.00
Europe Developed	0.00	33.75	0.00
Europe Emerging	0.00	1.82	0.00
Africa/Middle East	0.00	2.03	0.00

iShares MSCI India INDA

Morningstar Rating™

Morningstar Category	**Category Index**	**Prospectus Benchmark**
US ETF India Equity	MSCI ACWI Ex USA NR USD	MSCI India NR USD

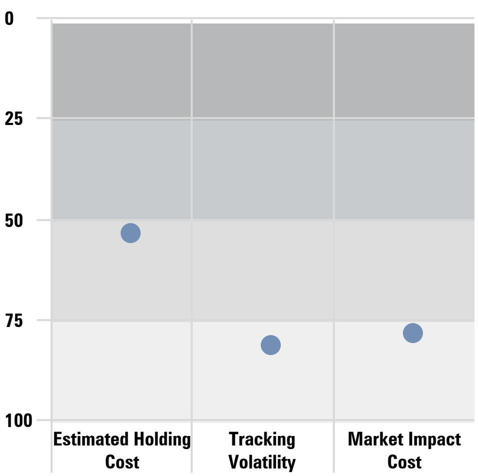
Fees

This fund's expense ratio is 0.67%, making it the cheapest fund for exposure to Indian companies. During the past year, the fund's net asset value performance has trailed that of its index by 46 basis points per year, which is lower than the expense ratio. This indicates that the fund is tracking its index efficiently.

Expenses

	ETF	Cat Avg
Gross Expense Ratio %	0.67	0.95
Net Expense Ratio %	0.67	0.86
Expense Waiver	—	—
Expense Waiver Expiration Date	—	—
Expense Waiver Type	—	—
Prospectus Date	12/30/2013	—

Percentile Rank Relative to ETF Universe



Total Cost Analysis Data Points

Estimated Holding Cost %	0.38
Tracking Volatility %	1.01
Market Impact Cost %	0.11

Estimated Holding Cost is essentially the difference between the ETF return and the benchmark return and represents the realized cost of replicating the benchmark. Lower costs indicate that the ETF is doing a better job of matching its benchmark while minimizing costs.

Tracking Volatility measures the uncertainty with which an ETF tracks a benchmark. A higher tracking error indicates a wider confidence interval for expected performance around the benchmark. Lower numbers and ranks are better.

Market Impact Cost represents the liquidity of the ETF and is based on the average market price movement in percent caused by a $100,000 trade in the ETF. Calculated as the residual volatility unexplained by movements in NAV and the previous day’s premium or discount, scaled by average dollar volume traded. Lower numbers and ranks are better.

Alternatives

WisdomTree India Earnings EPI is the largest and most liquid U.S.-listed India ETF, perhaps because it is the oldest. It has more mid-cap exposure relative to other India ETFs. This ETF carries an annual expense ratio of 0.83%.

Matthews India MINDX (1.18%) is an actively managed open-end fund that carries a Morningstar Analyst Rating of Silver. This fund has heavy exposure to consumer (30%) and industrial (18%) names but does not own any energy stocks.

Those comfortable with the closed-end fund structure might consider India Fund IFN (1.33%) and Morgan Stanley India IIF (1.29%), which carry ratings of Bronze and Neutral, respectively. Each fund has a long track record of 20 years.

Operations

Longest Tenured Manager	Multiple
Manager Tenure (Longest)	2.33
Manager Tenure (Average)	1.85
Exchange	BATS EXCHANGE
Web Address	www.ishares.com

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