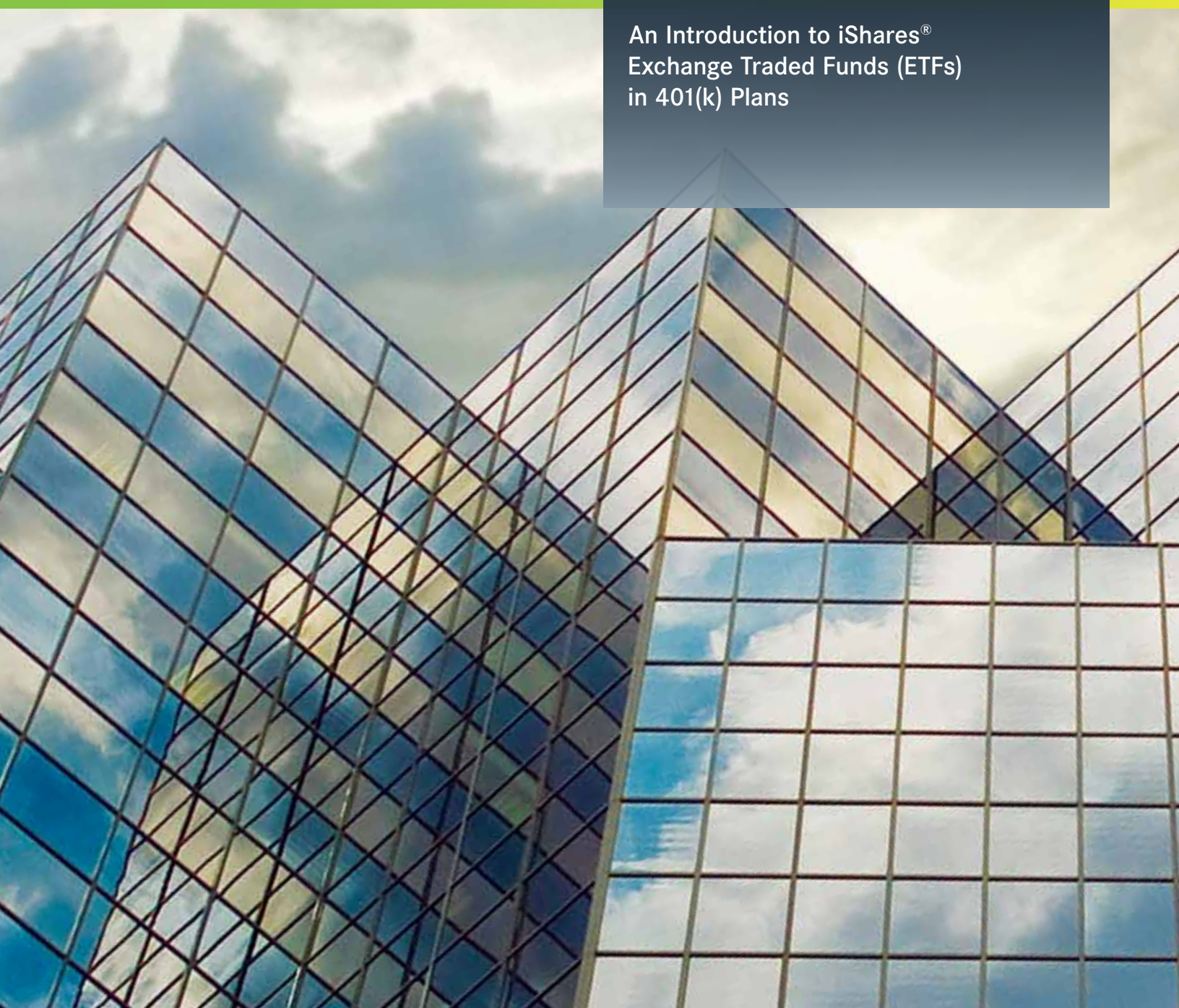


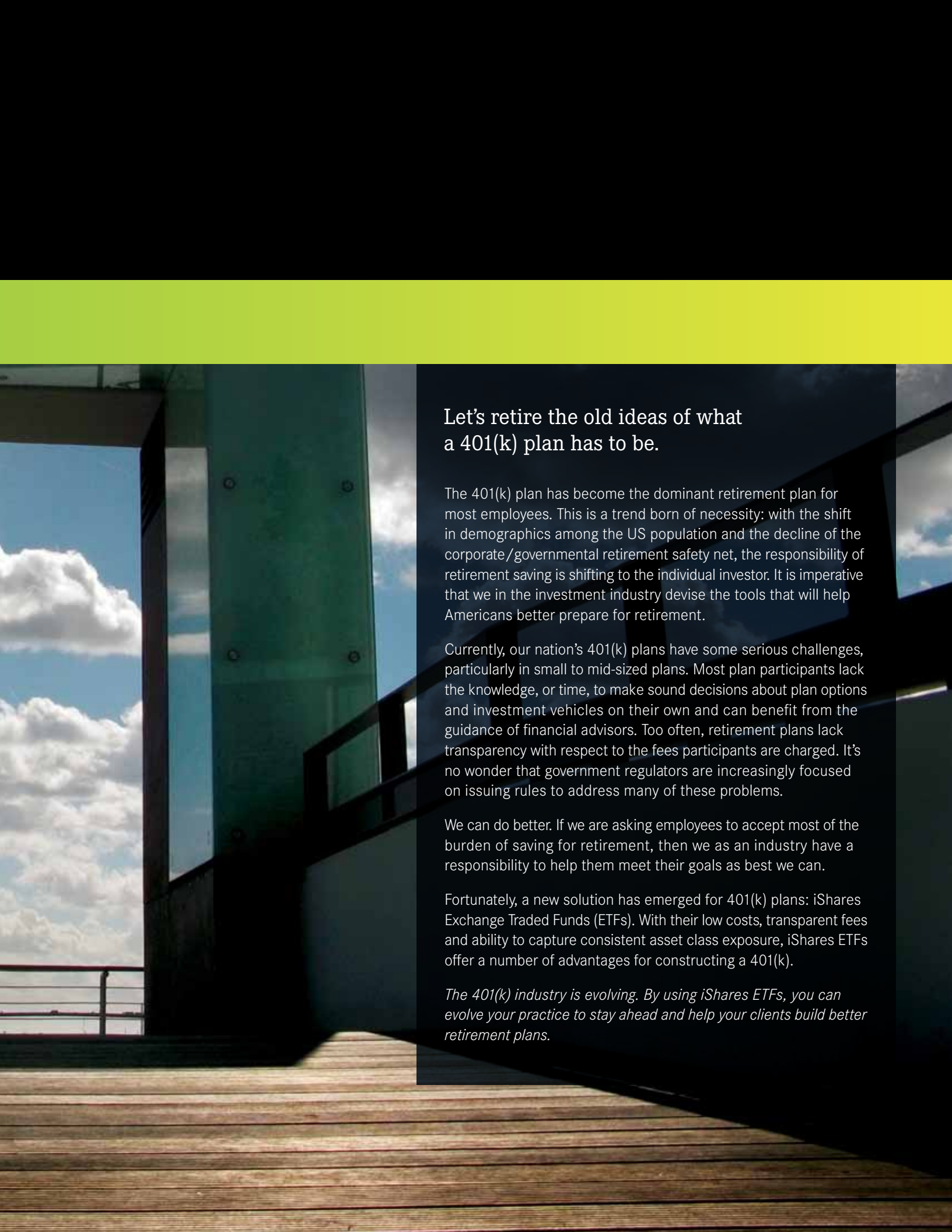


Reinventing Retirement Plans

An Introduction to iShares®
Exchange Traded Funds (ETFs)
in 401(k) Plans







Let's retire the old ideas of what a 401(k) plan has to be.

The 401(k) plan has become the dominant retirement plan for most employees. This is a trend born of necessity: with the shift in demographics among the US population and the decline of the corporate/governmental retirement safety net, the responsibility of retirement saving is shifting to the individual investor. It is imperative that we in the investment industry devise the tools that will help Americans better prepare for retirement.

Currently, our nation's 401(k) plans have some serious challenges, particularly in small to mid-sized plans. Most plan participants lack the knowledge, or time, to make sound decisions about plan options and investment vehicles on their own and can benefit from the guidance of financial advisors. Too often, retirement plans lack transparency with respect to the fees participants are charged. It's no wonder that government regulators are increasingly focused on issuing rules to address many of these problems.

We can do better. If we are asking employees to accept most of the burden of saving for retirement, then we as an industry have a responsibility to help them meet their goals as best we can.

Fortunately, a new solution has emerged for 401(k) plans: iShares Exchange Traded Funds (ETFs). With their low costs, transparent fees and ability to capture consistent asset class exposure, iShares ETFs offer a number of advantages for constructing a 401(k).

The 401(k) industry is evolving. By using iShares ETFs, you can evolve your practice to stay ahead and help your clients build better retirement plans.

iShares Exchange Traded Funds

In recent years, iShares ETFs have become increasingly popular with financial advisors and their clients. The unique structure and flexibility of ETFs have helped drive this success. ETFs are diversified like index funds, but trade like a stock. They also offer efficient, low-cost and transparent design—combined with enormous range, flexibility and access to virtually every major asset class.

As Figure 1 shows, ETF assets under management have grown rapidly in the last several years and now total more than \$1 trillion.¹ Investors have grown increasingly comfortable using them in their portfolios for strategic or tactical positions.

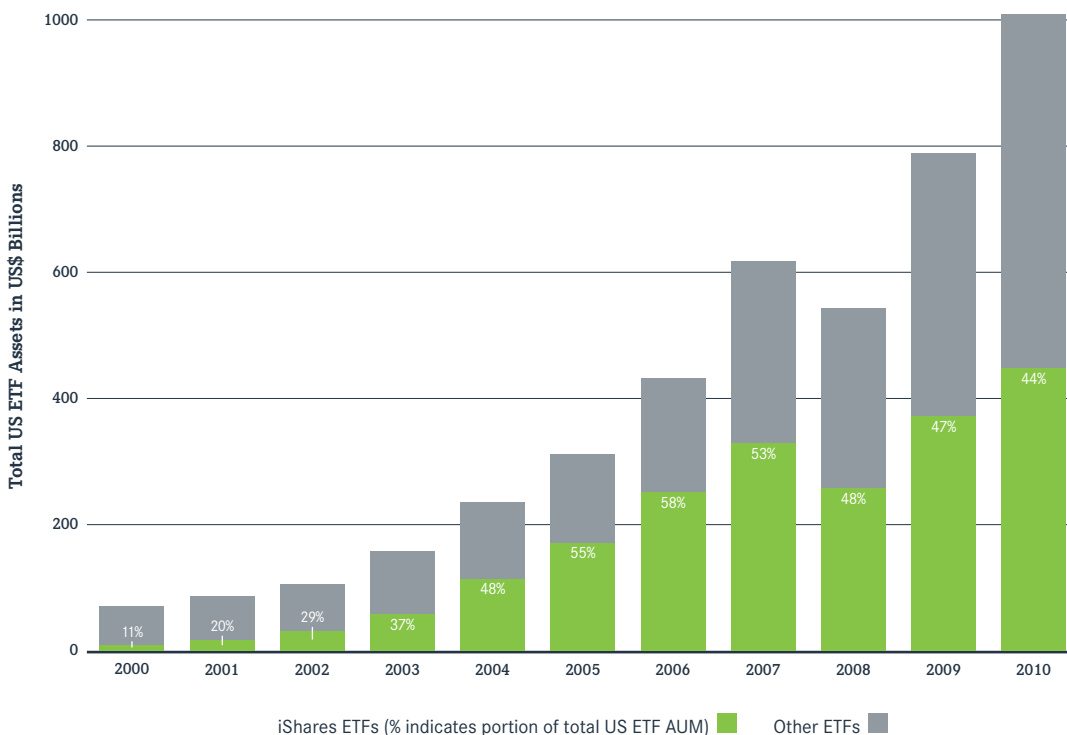
Now these innovative investment tools are being utilized in 401(k) plans. Demand for iShares ETFs in 401(k) plans has grown for these key reasons: iShares ETFs offer low and transparent fees, provide a flexible and transparent investment lineup, and help manage risk through portfolio diversification—all features that help strengthen retirement plans.

iShares ETF basics

- ▶ iShares ETFs are diversified like index funds and trade like a stock.
- ▶ iShares ETFs represent partial ownership in an underlying portfolio of securities.
- ▶ iShares ETFs cover a broad range of asset classes: domestic and international, value and growth, large cap and small cap, whole sectors and specific industries—and additional funds that specialize in the fixed income markets.
- ▶ iShares ETFs can be integrated seamlessly into 401(k) platforms and are available through more than 100 well-known providers.

Please visit www.iShares401k.com to view a list of more than 200 iShares ETFs as well as tools and resources to help you grow your retirement plan business.

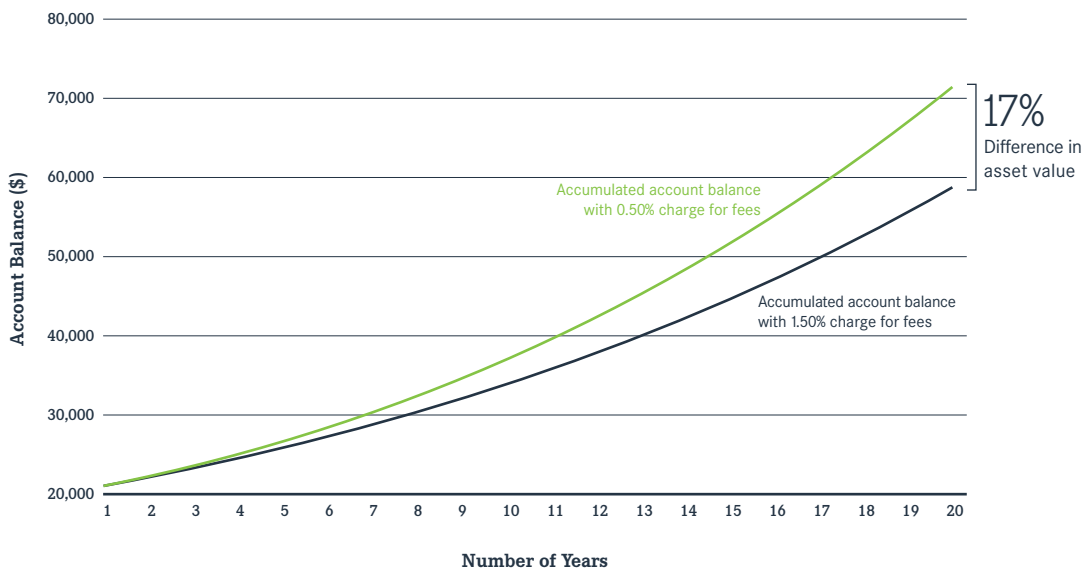
Figure 1: The growth in popularity of ETFs



Sources: Bloomberg, FactSet, as of 12/31/10.

1. Sources: FactSet, Bloomberg, BlackRock®, as of 12/31/10.

Figure 2: Effect of a 1% difference in higher annual fees on a \$20,000 401(k) balance invested over 20 years



Source: GAO. For illustrative purposes only.

The benefits of iShares ETFs in 401(k) plans

With the wide number of choices available for inclusion in 401(k) plans, it is important for you, as an advisor, to understand the benefits that iShares ETFs offer—and why they can be ideal tools for you to build 401(k) plans for your clients.

Consider these advantages that iShares ETFs offer clients in 401(k) plans:

- ▶ Paying lower fees
- ▶ Expense Ratios
- ▶ Understanding the fees participants pay
- ▶ Helping to manage risk
- ▶ Offering returns that seek to track indexes

Paying lower fees

High fees erode 401(k) plan performance. Figure 2, from a GAO report, illustrates exactly how much internal expenses matter: over the course of 20 years, a \$20,000 investment, earning 7% annually and paying 0.50% annual fees, will grow to about \$70,500.

But if fees are 1.50%—a mere 1% difference—that same \$20,000 will only grow to about \$58,400. This is approximately a 17% difference in asset value.

Expense ratios. iShares ETFs are a low-cost alternative to traditional mutual funds, with expense ratios that are typically well below those of both active and index mutual funds. The average expense ratio of an iShares ETF is 0.42%, versus the average active mutual fund expense ratio of 1.18%, a 0.76% difference that can result in significant savings at retirement.²

Figure 3: Average expense ratios

Average expense ratios of 401(k) plan investment options	
Actively managed mutual funds	1.18%
Index mutual funds	0.85%
ETFs	0.62%
iShares ETFs	0.42%

Source: Strategic Insight, as of 12/31/10.

2. Source: Strategic Insight, as of 12/31/10.

Figure 4: Expense ratio comparison

Morningstar Fund Category	Average Active Fund (%)	Average Index Fund (%)	iShares Funds—Management Fees (%)*
Large Cap Blend	1.14	0.48	0.09 S&P 500 0.15 Russell 1000
Mid Cap Blend	1.33	0.65	0.20 Russell Midcap
Small Cap Blend	1.30	0.71	0.20 Russell 2000
International Blend	1.31	0.56	0.35 MSCI EAFE
Diversified Emerging Markets	1.61	0.74	0.68 MSCI Emerging Markets
Intermediate-Term Fixed Income	0.76	0.32	0.24† Barclays Aggregate

Sources: Morningstar, BlackRock, as of 12/31/10. The annual management fees of iShares funds may be substantially less than those of most mutual funds. iShares transactions may result in recordkeeping fees, but the savings from lower annual fees can help offset these costs. Other plan fees may apply.

Investment comparisons are for illustrative purposes only and are not meant to be all-inclusive. To better understand the similarities and differences between investments, including investment objectives, risks, fees and expenses, it is important to read the products' prospectuses.

* "Management Fees" are fees paid to BlackRock Fund Advisors, the Funds' investment advisor. A Fund may also incur indirect expenses on its investments, if any, in other investment companies. Please see the Funds' prospectuses for more information on such expenses.

† The total annual operating expenses are shown for the iShares Barclays Aggregate Bond Fund. In addition to the management fees, the total expenses include "acquired fund fees and expenses" of 0.04%, which are related to the fund's investments in the BlackRock Cash Funds: Prime (the "money market fund"). "Acquired fund fees and expenses" represent the fund's pro rata share of the fees and expenses charged by the money market fund and may vary based on the fund's allocation of assets to the annualized net expenses of the money market fund. Annual operating expenses do not include the effect of interest earned by investments in the money market fund, which is expected to offset the money market fund's fees and expenses.

Understanding the fees participants pay

Just as plan sponsors and participants are rightly concerned about high fees, they are increasingly frustrated by hidden or excessive fees. Regulators are pushing the industry toward greater transparency and lower fees. The good news is, when using iShares ETFs in 401(k) plans, fund management fees and recordkeeping fees are separate and fully transparent. There are no hidden fees or cross-subsidy arrangements with the use of iShares ETFs in 401(k) plans. In short, iShares ETFs can be an ideal structure for answering the concerns plan sponsors and participants have regarding transparency and high fees.

Helping to manage risk

iShares ETFs have three key benefits that help plan sponsors and plan participants manage risk in a portfolio:

- ▶ First, they offer broad diversification, both among individual securities and across asset classes.
- ▶ Second, they track a specific slice of the market as designated by the benchmark. By tracking a benchmark, iShares ETFs avoid "style

drift," the tendency of actively managed funds to invest in asset classes outside their benchmark, which can reduce diversification—and increase risk.

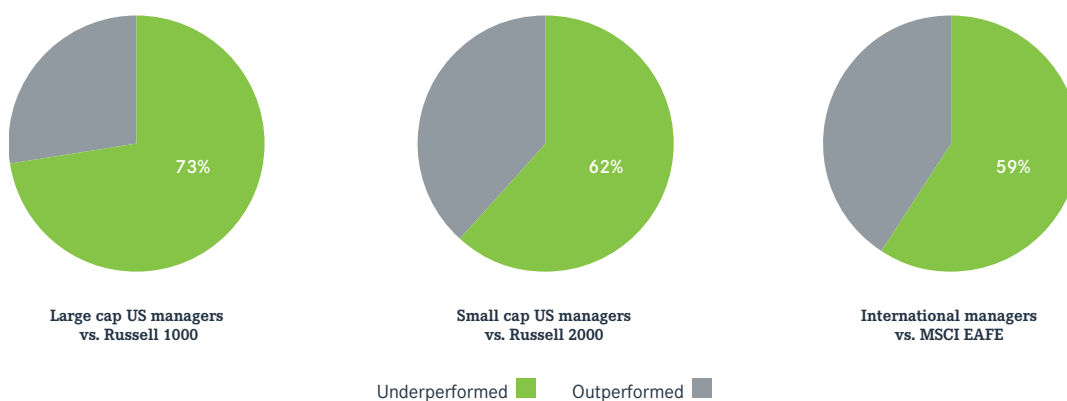
- ▶ Third, unlike most traditional mutual funds, the holdings and the value of every iShares ETF portfolio are disclosed every trading day.³ Knowing what holdings you own and their value provides the necessary information to help prevent unknowingly becoming overweighted in an asset class or investment position.

Offering returns that seek to track indexes

Index investments like iShares ETFs seek to deliver performance that tracks a market or asset class benchmark. While good active managers exist, the challenge is identifying them in advance, and not simply chasing returns. Only the very skilled (or very lucky) active managers can be right most of the time. For example, Figure 5 illustrates how most active managers underperformed the index in three key asset classes.

3. In accordance with MSCI licensing, holdings for MSCI-indexed funds are updated monthly.

Figure 5: Active managers who have underperformed the index over five years ending 12/31/10



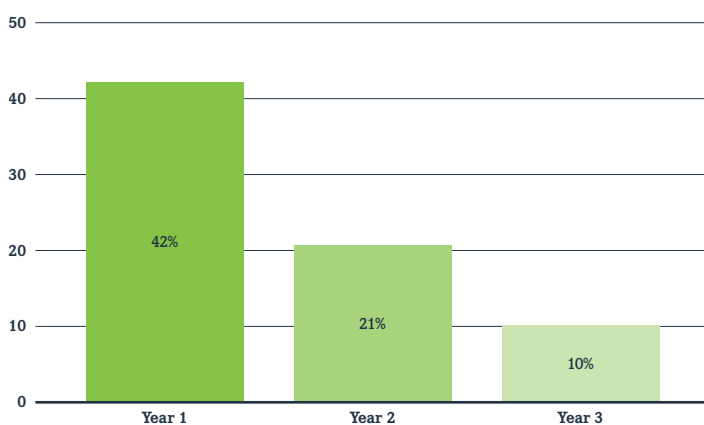
Sources: BlackRock, Morningstar, MSCI Inc., Russell, as of 12/31/10. Data is based on the oldest share classes of active open-end mutual funds to avoid double-counting of multiple share classes. Percentages account for merged or liquidated funds over the time period. Outcomes may differ in other time periods or with other fund structures or asset classes.

Past performance does not guarantee future results.

Figure 6 explores whether active managers who outperformed in one year continued that performance. Following a year of outperformance, the number of large cap blend managers who continued to beat the S&P 500® declined in each of the following two years.

For 401(k) plan participants, inconsistent performance may increase the risk that they might not meet their retirement goals.

Figure 6: Large cap blend active managers who have outperformed the S&P 500® in consecutive years



Sources: BlackRock, Morningstar, S&P, as of 12/31/10.

Averages for the period 12/31/95-12/31/10. Data is based on the oldest share classes of active open-end mutual funds to avoid double-counting of multiple share classes. Percentages account for merged or liquidated funds over the time period. Outcomes may differ in other time periods or with other fund structures or asset classes. **Past performance does not guarantee future results.**

Know the differences

While iShares ETFs and mutual funds each hold baskets of securities, some key differences do exist. iShares ETFs trade on exchanges intraday at market price, which may be greater or less than net asset value, and shares of iShares ETFs are not individually redeemed from the fund. In addition, iShares index ETFs seek to track a market index, before fees and expenses, and do not attempt to outperform during rising or declining markets. iShares ETF performance may diverge from the ETF's underlying index.

In comparison, mutual funds are accessed directly from the fund company or through a select broker, pricing generally occurs once a day, and investors buy or redeem shares at the end-of-day net asset value, less any applicable fees. Some mutual funds may charge redemption fees. Mutual funds may be either actively managed or track an index. The structure of both active and index mutual funds is similar, but the management strategy differs. Active mutual funds seek to outperform their benchmark while the goal of index mutual funds is to track their index. Consequently, active funds typically charge more than index-linked products such as an exchange traded fund, or an index mutual fund, for the increased trading and research expenses that may be incurred.

Constructing the right 401(k) plan for your client's needs

Demonstrate how you add value for a client by customizing portfolios within a 401(k) plan using iShares ETFs. iShares ETFs track more than 200 different indexes. Each modular component represents a specific asset class, style, sector, country or region. That diverse array of instruments helps you to achieve the necessary asset allocation goals with flexibility.

iShares ETFs are being implemented in core/satellite asset allocation strategies, for exposure to specific asset classes, as default investment alternatives and by investment managers looking to run purer, more precise models to deliver to retirement participants.

iShares ETFs for customized asset allocation

Equity			Mgmt Fees (%)*
Broad	ISI	iShares S&P 1500	0.20
	IWV	iShares Russell 3000	0.20
Large Cap	IVV	iShares S&P 500	0.09
	IWB	iShares Russell 1000	0.15
Large Cap Growth	IVW	iShares S&P 500 Growth	0.18
	IWF	iShares Russell 1000 Growth	0.20
Large Cap Value	IVE	iShares S&P 500 Value	0.18
	IWD	iShares Russell 1000 Value	0.20
Mid Cap	IJH	iShares S&P MidCap 400	0.20
	IWR	iShares Russell MidCap	0.20
Mid Cap Growth	IJK	iShares S&P MidCap 400 Growth	0.25
	IWP	iShares Russell MidCap Growth	0.25
Mid Cap Value	IJJ	iShares S&P MidCap 400 Value	0.25
	IWS	iShares Russell MidCap Value	0.25
Small Cap	IJR	iShares S&P SmallCap 600	0.20
	IWM	iShares Russell 2000	0.20
Small Cap Growth	IJT	iShares S&P SmallCap 600 Growth	0.25
	IWO	iShares Russell 2000 Growth	0.25
Small Cap Value	IJS	iShares S&P SmallCap 600 Value	0.25
	IWN	iShares Russell 2000 Value	0.25

Alternatives			Mgmt Fees (%)*
Real Estate and REITs	ICF	iShares Cohen & Steers Realty Majors	0.35

Enhancing the lineup

Use iShares ETFs within a 401(k) plan's lineup of standard investment options to:

- ▶ Replace underperforming actively managed products
- ▶ Augment the menu of investment options with alternative exposures
- ▶ Help the plan sponsor contain costs

Building better models

Use iShares ETFs to build customized, managed models:

- ▶ Add more index-based exposures into your model
- ▶ Differentiate yourself through fee compression made possible by low iShares expenses
- ▶ Help participants optimize investment outcomes with style-pure building blocks

International and World Equity			Mgmt Fees (%)*
Broad	ACWI	iShares MSCI ACWI	0.35
Broad Ex-U.S.	ACWX	iShares MSCI ACWI ex US	0.35
Developed Markets	EFA	iShares MSCI EAFE	0.35
	SCZ	iShares MSCI EAFE Small Cap	0.40
Emerging Markets	EEM	iShares MSCI Emerging Markets	0.68

Domestic and International Fixed Income			Mgmt Fees (%)*
Broad Domestic	AGG	iShares Barclays Aggregate	0.24 [†]
International Treasuries	IGOV	iShares S&P/Citigroup International Treasury	0.35
Inflation-Indexed	TIP	iShares Barclays TIPS	0.20
Short-Term Treasuries	SHV	iShares Barclays Short Treasury	0.15
High-Yield Bonds	HYG	iShares iBoxx \$ High Yield Corporate	0.50

* "Management Fees" are fees paid to BlackRock Fund Advisors, the Funds' investment advisor. A Fund may also incur indirect expenses on its investments, if any, in other investment companies. Please see the Funds' prospectuses for more information on such expenses. Fees shown are as of 1/11.

[†] The total annual operating expenses are shown for the iShares Barclays Aggregate Bond Fund. In addition to the management fees, the total expenses include "acquired fund fees and expenses" of 0.04%, which are related to the fund's investments in the BlackRock Cash Funds: Prime (the "money market fund"). "Acquired fund fees and expenses" represent the fund's pro rata share of the fees and expenses charged by the money market fund and may vary based on the fund's allocation of assets to the annualized net expenses of the money market fund. Annual operating expenses do not include the effect of interest earned by investments in the money market fund, which is expected to offset the money market fund's fees and expenses.

iShares S&P Target Date Index Funds and Target Risk Index Funds are a convenient way to achieve tailored portfolios that offer cost-effective, efficient and diversified solutions to help meet specific needs based upon your client's risk tolerance or anticipated retirement date.

Each iShares S&P Target Date Index Fund has a number (a target date) at the end of the name that designates an approximate year when an investor plans to start withdrawing his or her money. The asset allocation of each fund will become progressively more conservative as the specified target date approaches. Of course, an investment in the iShares S&P Target Date Funds is not guaranteed, and an investor may experience losses, including near, at or after the target date.

The iShares S&P Target Date Index Funds seek to track the Standard & Poor's Target Date indexes, which attempt to define a market consensus for asset allocation through a robust survey of target date funds. Since there can be significant differences among glide paths and asset allocations in target date funds, representing the consensus market view can help manage risk by reducing exposure to any individual target date methodology.

A new solution

With their low costs, transparent fees and ability to capture consistent asset class exposure, iShares ETFs offer a number of advantages for constructing a 401(k) plan. iShares ETFs can be easily and seamlessly integrated into 401(k) plans through more than 100 administrators and TPA networks.

iShares ETFs for asset allocation solutions

Target Date Funds		Net Expense Ratio (%)
TGR	iShares S&P Target Date Retirement Income	0.29
TZD	iShares S&P Target Date 2010	0.29
TZE	iShares S&P Target Date 2015	0.29
TZG	iShares S&P Target Date 2020	0.29
TZI	iShares S&P Target Date 2025	0.29
TZL	iShares S&P Target Date 2030	0.30
TZO	iShares S&P Target Date 2035	0.29
TZV	iShares S&P Target Date 2040	0.30

Target Risk Funds		Net Expense Ratio (%)
AOK	iShares S&P Conservative Allocation	0.30
AOM	iShares S&P Moderate Allocation	0.31
AOR	iShares S&P Growth Allocation	0.32
AOA	iShares S&P Aggressive Allocation	0.35



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

Investing involves risk, including possible loss of principal. 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. Investments in smaller companies, securities focusing on a single country and narrowly focused investments typically exhibit higher volatility. Bonds and bond funds will decrease in value as interest rates rise. 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. TIPS can provide investors a hedge against inflation, as the inflation adjustment feature helps preserve the purchasing power of the investment. Because of this inflation adjustment feature, inflation protected bonds typically have lower yields than conventional fixed rate bonds and will likely decline in price during periods of deflation, which could result in losses. Government backing applies only to government issued securities, not iShares Exchange Traded Funds. An investment in the fund(s) is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Asset allocation models and diversification do not promise any level of performance or guarantee against loss of principal. The Target Date and Target Risk Funds are subject to the risks of the underlying Funds.

The annual management fees of iShares Funds may be substantially less than those of most mutual funds. iShares transactions may result in recordkeeping fees, but the savings from lower annual fees can help offset these costs. Other plan fees may apply.

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Past performance does not guarantee future results.

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