Morningstar® US Bond Market Yield-Optimized Index℠

Broad fixed-income exposure can provide both income and diversification benefits. The Morningstar® US Bond Market Yield-Optimized Index℠ is designed to offer broadly diversified U.S. fixed-income exposure to balance a high level of current income, while maintaining long-term capital appreciation. Investors who are drawn to the safety of bonds, but prefer a higher level of income may find yield-optimization strategies attractive.

Among fixed-income investments, securities that pay above average levels of income tend to be higher-risk securities. The diversification benefit that can come from a multi-sector approach to higher yielding fixed-income investments can help reduce interest rate, credit quality, and income risks associated with long-term, sub-investment grade, and short-term bonds. By diversifying across bonds of varying quality, the index is intended to enhance yield without taking on additional volatility.

The Morningstar® US Bond Market Yield-Optimized Index℠

The Morningstar US Bond Market Yield-Optimized Index is a broadly diversified index targeting securities that seek to deliver a high level of current income while maintaining long-term capital appreciation. The index encompasses a comprehensive set of exchange-traded funds (ETFs) that collectively target various asset classes within the fixed-income category.
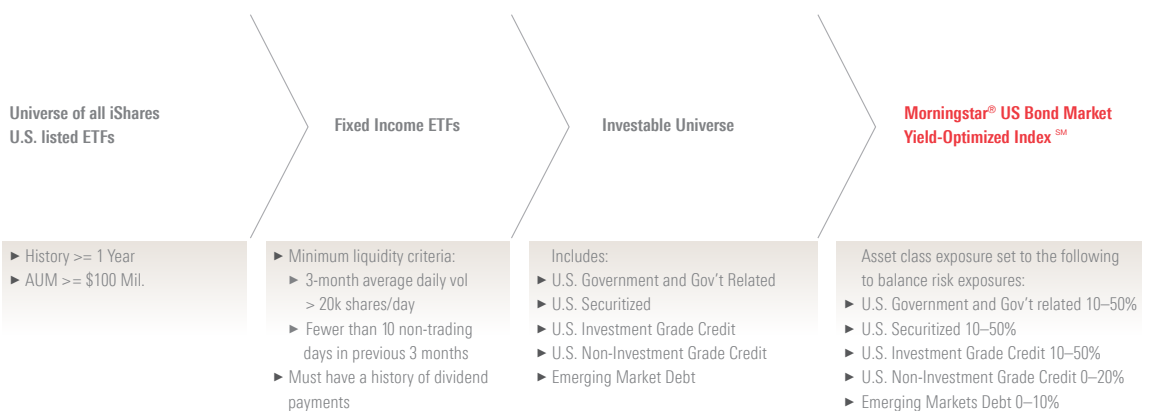
Index Methodology

ETFs under consideration for inclusion in the index must be classified as fixed-income within the following broad sectors: U.S. Government and Government Related bonds[1], U.S. Securitized bonds, U.S. Investment Grade Credit, U.S. Non-Investment Grade Credit, or Emerging Markets Debt.

Investable Universe

In addition to the general eligibility criteria, to qualify for inclusion in the investable universe, a security must also meet the following criteria:
► The ETF must trade on a U.S. exchange
► The ETF must have at least a one-year trading history
► The ETF must have AUM greater than or equal to $100 million
► The ETF must have a history of dividend payment
► The ETF must have fewer than ten non-trading days during the previous three months
► The ETF must have a 3-Month Average Daily Trading Volume greater than 20,000 shares

Morningstar® US Bond Market Yield-Optimized Index℠ Construction Process

Universe of all iShares U.S. listed ETFs	Fixed Income ETFs	Investable Universe	Morningstar® US Bond Market Yield-Optimized Index℠

► History >= 1 Year
► AUM >= $100 Mil.
	► Minimum liquidity criteria:
	  ► 3-month average daily vol > 20k shares/day
	  ► Fewer than 10 non-trading days in previous 3 months
	► Must have a history of dividend payments
		Includes:
		► U.S. Government and Gov't Related
		► U.S. Securitized
		► U.S. Investment Grade Credit
		► U.S. Non-Investment Grade Credit
		► Emerging Market Debt
			Asset class exposure set to the following to balance risk exposures:
			► U.S. Government and Gov't related 10–50%
			► U.S. Securitized 10–50%
			► U.S. Investment Grade Credit 10–50%
			► U.S. Non-Investment Grade Credit 0–20%
			► Emerging Markets Debt 0–10%

[1]Government Related includes agency, TIPS, local authorities, sovereign, and supranational.

Index Weighting Methodology

To maintain broad exposure and diversification, the Index will maintain a weight allocation to each sector within the following ranges at each rebalance:

▶ U.S. Government and Government Related: 10–50%

▶ U.S. Securitized: 10–50%

▶ U.S. Investment Grade Credit: 10–50%

▶ U.S. Non-Investment Grade Credit: 0–20%

▶ Emerging Market Debt: 0–10%

In addition, the following security-level weight constraints are applied:

▶ Maximum single-security position is 30%

▶ Maximum position for securities with AUM greater than $500 million is 10%

Securities that meet the investable-universe standards are selected and assigned a weight according to a variant of the Mean Variance Optimization equation developed by Morningstar. The equation creates an optimal portfolio based on the return, standard deviation, correlation, and yield of the eligible securities.

Index Calculation

The Morningstar® US Bond Market Yield-Optimized IndexSM values are calculated in real time. Distributions are reinvested proportionally in the index sample of the total-return index variant.

Rebalancing & Reconstitution

The Morningstar US Bond Market Yield-Optimized Index is reconstituted and rebalanced quarterly — on the last business day in February, May, August, and November. The changes become effective on the next business day. Market data used for rebalancing is from the previous month end.