

UNLOCK THE POTENTIAL OF YOUR PORTFOLIOS

iShares Securities Lending

December 2023



Introduction

Securities lending is a well-established practice whereby investment vehicles such as ETFs make loans of stocks or bonds to seek an incremental increase in returns for fund shareholders.

This paper explains the basics of ETF securities lending, outlines the benefits and risks for investors, and describes BlackRock's approach to securities lending.

In summary:

While not without risk, securities lending seeks to benefit the fund.

BlackRock has focused on delivering competitive returns while balancing return, risk and cost in its four decades of lending securities on behalf of shareholders.

Since 1981, BlackRock has delivered positive monthly lending income for every fund that has participated in securities lending, including iShares ETFs.

Basics

In securities lending transactions, ETFs lend stocks or bonds to seek to generate additional returns for the funds.

Here's how it works: first, a large financial institution asks to borrow a stock or bond from an ETF. In order to borrow the stock or bond, the financial institution will negotiate financial terms with the lending agent of the ETF and provide collateral. The ETF keeps the collateral to secure repayment in case the borrower fails to return the loaned stock or bond. The value of the collateral is required to be at least equal to the market value of the loaned stock or bond.

The financial institution typically uses the stock or bond to hedge against market risks, facilitate a short sale, or to use as collateral in another transaction.

See the flow chart on the right for an example of how a securities lending transaction works.

Benefits

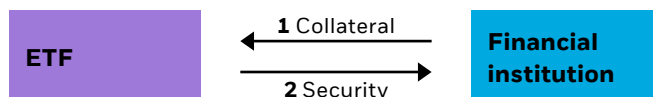
ETF investors can benefit from securities lending in the form of fund performance. How? The ETF seeks to generate additional income through the rate that it charges for lending securities (if applicable), and/or income on the reinvestment of the collateral that the borrower provides in exchange for the loan.

Securities lending returns typically vary by asset class and the underlying demand for securities. Of the iShares ETFs that participated in securities lending during the 12-months ending December 31, 2023, approximately 43% of the funds earned less than 0.01%, 34% of the funds earned between 0.01% and 0.05%, 10% of the funds earned between 0.05% and 0.10%, and 13% of the funds earned greater than 0.10% of the total net assets of the fund.

Here's an example of how it works:

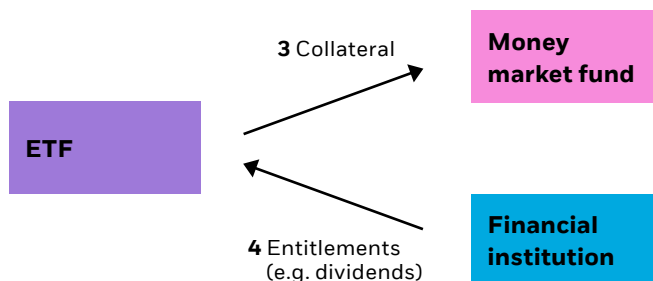
To start the process:

- 1 A large financial institution asks to borrow a stock or bond from an ETF. The ETF asks for collateral to secure the loan.
- 2 Once collateral is received, the ETF lends the stock or bond to the financial institution (the borrower).



While the security is out on loan:

- 3 The ETF invests cash collateral in a money market fund to seek incremental return.
- 4 If a security pays a dividend or other distribution while on loan, the borrower will pay the ETF what the ETF would have received if it had been holding such security.



To end the process:

- 5 At the end of the loan term (or at the ETF's request), the borrower must return the security back to the ETF.
- 6 The ETF then releases the collateral back to the borrower to close out the process.



Please see the table below for securities lending returns for the fiscal year ended March 31, 2023 for iShares ETFs with more than \$3 billion in assets under management and securities lending returns of at least 0.03%. Among the ETFs listed below, securities lending income had the equivalent effect of offsetting management fees by between 41% and 92% for the fiscal year ended March 31, 2023.

Sample of iShares ETFs with fiscal year end 3/31/2023

Strategy	iShares ETF	Ticker	Securities lending returns as of fiscal year end 3/31 (bps)			As of 3/31/2023	
			2021	2022	2023	Mgmt. fee (bps)	Mgmt. fee offset by lending
Small Cap US	iShares Russell 2000 Growth ETF	IWO	19	8	22	24	92%
	iShares Russell 2000 ETF	IWM	12	6	16	19	85%
	iShares Russell 2000 Value ETF	IWN	8	3	11	24	47%
Mid-Cap US	iShares S&P Mid-Cap 400 Growth ETF	IJK	3	1	7	17	41%

Source: BlackRock. Unaudited securities lending returns. See above for fund selection criteria. Management fee shown above as of 3/31/2023. See the funds' prospectuses on iShares.com for the current management fee. One basis point (1 bp) is equivalent to 0.01%. **Past performance does not guarantee future results. For standardized fund performance, see the end of this document.**

Risks

While every investment bears some risk, BlackRock takes a rigorous, hands-on approach to securities lending and has delivered positive lending income for every fund that has participated in securities lending since 1981, including iShares ETFs.

The primary risks of securities lending are borrower default risk and collateral re-investment risk.

Borrower default risk

Securities lending involves the risk that the borrower may default, including by failing to return the securities in a timely manner, or at all. In order to minimize the risk of borrower default, each borrower is assessed by BlackRock's internal risk department and monitored over time. The risk team performs regular borrower reviews. New transactions are systematically prevented if a borrower reaches internal limits.

As an additional safeguard, BlackRock provides an indemnity for its ETFs for a shortfall in collateral in the event of a borrower default. If a shortfall were to exist between the collateral amount received and the cost to repurchase a loaned security and that shortfall is not due to reinvestment risk, BlackRock would reimburse the fund in full.

Collateral re-investment risk

When an ETF receives cash as collateral, it may be reinvested in a money market fund with the objective of preserving principal and liquidity while generating income.

Q&A

How does securities lending benefit the financial markets?

Securities lending is a vital component of the financial markets. As of December 2023, there was roughly \$35.5tn in Lendable Value and \$2.3tn value on loan from a lender perspective in all securities.¹

Securities lending increases market liquidity, and in doing so, facilitates transactions, helps to mitigate price volatility, and reduces transaction costs.

Since securities lending transactions can lead to short sales - where investors sell borrowed securities in anticipation of price declines - some have criticized securities lending as a risk to market stability.

In fact, the Federal Reserve has found that short sales actually improve market stability. Their research has shown that short selling does not systematically drive down asset prices, and that restricting short selling can actually lead to reduced liquidity and higher transaction costs for investors.² This is driven by the dynamics mentioned above - securities lending and short sales help to improve liquidity and enable investors to hedge risk.

¹ Source: Markit. On loan figure includes market activity for asset owners only.

² Source: Federal Reserve Bank of New York Staff Report no. 518, "Market Declines: Is Banning Short Selling the Solution?" September 2011.

Since 1981, BlackRock has delivered positive monthly lending income for every fund that has participated in securities lending, including iShares ETFs.

This re-investment of cash collateral exposes the fund to various investment risks and the potential loss of principal. These risks include market, liquidity and credit risks, and are not covered by BlackRock's borrower default indemnity. Market risk is the potential for losses due to changing prices. Liquidity risk is the possibility that securities or instruments in which the cash is invested become difficult to sell or can only be sold at discounted prices. Credit risk is the potential that securities or instruments in which the cash is invested default or sell at discounted prices due to changes in credit quality.

To mitigate against these risks, BlackRock invests cash collateral in BlackRock money market funds that invest in diversified pools of high quality, short-term securities and are subject to rigorous restrictions regarding credit quality, maturity and liquidity. BlackRock brings sophisticated cash management capabilities to bear in this process. As of December 31, 2023 BlackRock is one of the largest cash fund managers in the world, with \$764 billion in cash assets under management.

Has there ever been a borrower default in BlackRock's history?

Since BlackRock's lending program started in 1981, only three borrowers with active loans have defaulted. In each case, BlackRock was able to repurchase every security out on loan using the proceeds of the borrower collateral received and without any losses to our clients.

Although borrower defaults are infrequent, how well prepared is BlackRock in the event it happens again?

BlackRock's integrated technology platform and experienced team of professionals focused on all aspects of markets, trading and liquidity put us in a strong position to manage collateral in the rare event of a borrower default. Additionally, our securities lending, operations, portfolio management and trading teams regularly assess our readiness to respond to a borrower default using various tools, which in a given year may include a borrower default simulation.

We encourage all investors to ask their ETF managers about securities lending practices and returns.

How much of the securities lending proceeds are paid to iShares ETFs?

iShares ETFs receive 81-82% of the income generated from securities lending, depending on the asset class of the securities held in each fund. iShares ETFs classified as US equities receive 81% of the income from securities lending. All other funds (i.e. those classified as fund-of-funds, fixed income or international equities) receive 82% of the income from securities lending. Once the aggregate securities lending income exceeds a specified income threshold amount, US equity iShares ETFs receive 81% and all other iShares ETFs receive 85% (i.e., an increased percentage of income), for the remainder of the calendar year.

A BlackRock affiliate serves as the securities lending agent and retains the remainder of the gross income. The funds may bear up to 0.04% in fees and expenses for cash collateral management. From its share of revenues, BlackRock covers all direct operational and custodial costs, including:

- **Transaction charges and custodial fees.**
BlackRock pays the transaction charges and custodial fees related to the securities lending transactions along with related market-based charges.
- **Platform maintenance.**
BlackRock's team of professionals in London, Delaware, Edinburgh, Gurgaon, Hong Kong, London, New York, Princeton, San Francisco and Tokyo use advanced risk management technology to monitor risks and extract value for our clients. We believe that our proprietary technology is a key differentiator that has contributed to strong performance and lower risk.
- **Indemnity against the risk of collateral shortfall in case of borrower default.**
BlackRock provides an indemnity against collateral shortfall for ETF investors in the rare event that a borrower defaults under a lending agreement, including if a borrower fails to return a security (although BlackRock does not indemnify against cash collateral reinvestment risk).

BlackRock's fees as the securities lending agent are disclosed in the ETF's Statement of Additional Information (SAI) and financial statements as of the date of such statements.

We encourage investors to ask their ETF managers for details on their securities lending program. BlackRock believes investors should evaluate the benefits from securities lending by considering the net returns in light of the associated risks.

We periodically benchmark our performance versus competitors using data from independent third-party providers. Over four decades, BlackRock has focused on delivering competitive returns while balancing return, risk and cost.

Transparency into securities lending practices

We encourage all investors to ask their ETF managers about securities lending practices, and seek information about the fees managers or their affiliates earn, or payments they make to third-party lending agents.

Fund shareholders can find the following information in each iShares ETF's SAI:

- Whether a particular fund is permitted to engage in securities lending.
- Confirmation that cash collateral will be invested in a BlackRock money market fund.
- Disclosure that BlackRock serves as the lending agent, and that it will be paid a fee for the provision of these services.
- Disclosure of any risk factors and potential conflicts of interest.

In addition, for every iShares ETF that engages in securities lending, BlackRock publishes securities lending revenues in the fund's annual shareholder report and SAI and includes a separate line item that details BlackRock's portion of revenues. In the report and SAI, investors can clearly identify both the fund's and BlackRock's earnings from securities lending.

BlackRock's approach to securities lending

We believe in managing our securities lending operations on our proprietary platforms and to that end, we have built a proprietary securities lending infrastructure so that every element of our lending agency activity is executed in our clients' best interests and with prudent risk management.

• Skillful risk management.

BlackRock has been hired by many of the largest companies and governments in the world to manage risk.

We take a conservative, low-risk approach and use our proprietary risk and investment management platform, Aladdin®, to integrate the capabilities of our dedicated research, trading and risk management teams.

All BlackRock investment and trading teams, across asset classes and around the globe, utilize Aladdin to capture opportunities for our clients in a highly risk-managed environment.

This synergy among securities lending professionals and portfolio and risk management teams has enabled us to reduce the operational risks of securities lending in a way that a third-party custodian or lending agent may not.

• Proprietary technology.

Our dedicated team works on custom-built reporting, operations and trading systems to help ensure transparency and operational efficiency.

Our core trading system enables our traders to extract value for our clients in rapidly changing markets by incorporating proprietary trading research and securities lending supply and demand data in a rapid, consistent and scalable manner. Capturing re-pricing opportunities has been a key component in outperforming competitors; with tens of thousands of loans

How is securities lending regulated?

Securities lending is a well-established activity and is subject to regulation. The U.S. Securities and Exchange Commission (SEC) is the primary regulator of securities lending activities for ETFs. SEC rules and guidance govern who can borrow or lend, what types of collateral are acceptable, the levels of collateral, and the reasons for which securities can be borrowed.

What is the maximum percentage of assets that can be on loan?

iShares ETFs may lend up to 33⅓% of their total assets, subject to any investment policies and restrictions disclosed in the fund's registration statement. In practice, many iShares ETFs lend significantly less than that amount and in some cases do not lend at all, depending on the assets in the fund's portfolio.

BlackRock's risk management capabilities, proprietary technology, and stringent management processes set it apart from other market participants.

outstanding at any given time, our trading system helps ensure that traders focus on the most significant opportunities.

Our proprietary collateral and loan processing application delivers a seamless exception-based process for loan management. While borrower default is rare, the application is designed to manage the default process systematically, and mitigate risk to investors.

- **Robust assessment of borrowers.**

We select highly creditworthy borrowers based on conservative credit standards defined by our risk team, which operates independently from our securities lending business.

We continuously monitor the financial performance of borrowers and set individual lending limits for every borrower to help minimize default risk. We monitor all trading activity against these limits and systematically prevent new transactions if the limits are reached.

We also reserve the right to recall a security or require a borrower to provide additional collateral at any time.

- **Collateral standards.**

Currently, collateral may include cash or securities issued or guaranteed by the U.S. government. Cash is the most common form of collateral in the U.S. for securities lending. We require borrowers to post initial collateral of at least 102% of the loan value and the iShares ETF retains the borrower's collateral until the borrower has returned the loaned stock or bond.

- **Careful collateral management.**

We invest cash collateral conservatively in BlackRock money market funds.

The portfolio management team currently managing BlackRock short term investment funds (STIFs), has acted on average 11 months prior to an NSRO downgrade over the last 14 years.³

- **Constant monitoring and application of best practices.**

Since securities lending income is taxed differently than qualified dividend income (QDI), BlackRock closely monitors the impact and tax consequences that securities lending income could have on fund shareholders. We may limit lending activities to ensure that income generated from securities lending does not adversely impact fund shareholders on an after-tax basis.

³ NSRO – Nationally Recognized Statistical Rating Organization. BlackRock's Approved Lists for Money Market Funds consists of issuers that have been authorized for inclusion on our approved lists after a thorough due diligence process. Issuers and counterparties are assessed by dedicated credit research analysts for appropriate exposure and maturity limits as well as creditworthiness of the issuers/counterparties. BlackRock's Cash Management Credit Committee, Fund Managers and Credit Research Teams all play an active part in the overall credit process, which is reviewed and monitored continually. As of 31 December 2023. 1A downgrade that impacts approved list eligibility.

Conclusion

As the world's largest asset manager, BlackRock's priority is acting as a fiduciary to its clients, investors and shareholders. Securities lending is a strategy for funds to seek additional value from their portfolios.

While not without risk, securities lending seeks to benefit the fund. In four decades of lending securities on behalf of clients, BlackRock has focused on delivering competitive returns, while balancing return, risk and cost.

Standardized Performance

(as of 12/29/23 - fees as of most recent prospectus)

iShares ETF	Inception date	Expense ratio	1 year	5 years	10 years	Since inception
IWO	iShares Russell 2000 Growth ETF	7/24/00	0.24%			
	Fund NAV Total Return		18.58%	9.17%	7.18%	5.63%
	Fund Market Price Total Return		18.52%	9.17%	7.19%	5.63%
	Index Total Return		18.66%	9.22%	7.16%	5.68%
IWM	iShares Russell 2000 ETF	5/22/00	0.19%			
	Fund NAV Total Return		16.80%	9.87%	7.12%	7.73%
	Fund Market Price Total Return		16.84%	9.87%	7.13%	7.73%
	Index Total Return		16.93%	9.97%	7.16%	7.81%
IWN	iShares Russell 2000 Value ETF	7/24/00	0.24%			
	Fund NAV Total Return		14.42%	9.79%	6.61%	8.69%
	Fund Market Price Total Return		14.57%	9.81%	6.61%	8.70%
	Index Total Return		14.65%	10.00%	6.76%	8.87%
IJK	iShares S&P Mid-Cap 400 Growth ETF	7/24/00	0.17%			
	Fund NAV Total Return		17.32%	11.71%	8.84%	7.62%
	Fund Market Price Total Return		17.42%	11.72%	8.84%	7.62%
	Index Total Return		17.49%	11.91%	9.04%	7.84%

The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting www.iShares.com or www.blackrock.com. Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the fund. Any applicable brokerage commissions will reduce returns. Beginning August 10, 2020, market price returns for BlackRock and iShares ETFs are calculated using the closing price and account for distributions from the fund. Prior to August 10, 2020, market price returns for BlackRock and iShares ETFs were calculated using the midpoint price and accounted for distributions from the fund. The midpoint is the average of the bid/ask prices at 4:00 PM ET (when NAV is normally determined for most ETFs). The returns shown do not represent the returns you would receive if you traded shares at other times.

RISKS

Securities lending involves exposure to certain risks, including cash collateral investment risk (i.e., risk that cash collateral investments, whether in cash collateral funds or otherwise, may not achieve their investment objectives, including suffering realized or unrealized loss due to investment performance), "gap" risk (i.e., risk that the return on cash collateral investments is insufficient to pay the rebate fees the lending fund or lending account has committed to pay to borrowers), liquidity risk (i.e., risk that the cash collateral is invested, directly or through the cash collateral funds, in securities and other instruments that are less liquid than the lending fund or lending account, which could limit the liquidity available to the lending fund or lending account for ordinary course transactions), operational risk (i.e., risk of losses resulting from problems in the settlement and accounting process), foreign exchange risk (i.e., risk of a shortfall at default when a cash collateral investment is denominated in a currency other than the currency of the assets being loaned due to movements in foreign exchange rates), and credit, legal, counterparty and market risks. At any particular point in time, investments in the cash collateral funds could comprise a material portion of a lending fund's assets.

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SECURITIES LENDING RETURNS

BlackRock retains a portion of securities lending returns in exchange for managing the program. This fee reflects risk management, as well as the technology and personnel costs of maintaining the lending platform. In addition, BlackRock receives a fee for the management of cash collateral. Actual lending yields and fees for strategies represented may vary. Please note, other administrative costs, including but not limited to, accounting, custody and audit fees, may vary. Asset spread income is defined as the interest income earned in cash reinvestment funds on collateral balances less the Overnight Bank Funding Rate. Liability spread income is defined as the difference between the Overnight Bank Funding Rate and the rebate rate negotiated with the borrower.

This information must be preceded or accompanied by a current prospectus. Investors should read and consider it carefully before investing. Investing involves risk, including possible loss of principal.

There is no guarantee that securities lending will generate any level of income. Distributions paid out of the funds' net investment income, including income from securities lending, if any, are taxable to investors as ordinary income.

Shares of ETFs may be bought and sold throughout the day on the exchange through any brokerage account. Shares are not individually redeemable from an ETF, however, shares may be redeemed directly from an ETF by Authorized Participants, in very large creation/redemption units.

With short sales, an investor faces the potential for unlimited losses as the security's price rises.

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