THINKING GLOBALLY WITH ETFs

Audio Script

iShares by BlackRock

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Thank you for joining today's presentation on the investment forces abroad. Today we're going to begin by asking three questions: Why do we believe investing will succeed over the long term? What are you invested in? And where are you invested?

So why do we believe investing will succeed over the long term? Sticking to the U.S. has worked well in recent years -- why look to new shores when it's smooth sailing at home? There's reason to still think abroad -- portfolios that are diversified across sectors, asset classes and regions tend to see better outcomes. The second question is what are you invested in? Most likely stocks, bonds and perhaps some alternatives -- great start so far. While each play their own role in your portfolio -- stocks for growth, bonds for capital preservation and income, and alternatives for potential outsized or uncorrelated returns -- you may be missing an important consideration.

Lastly, where are you invested? Odds are that your portfolio is going to be more concentrated in the U.S. -- and for good reason too. U.S stocks have done remarkably well in the last decade.

So, let's begin with a quiz question: Out of the 47 countries in the All-World-Country-Index -- an index that seeks to represent the global economy -- how have U.S. stocks ranked from a performance perspective?

The U.S. ranks 36th. Surprised? While much of this can be explained by recent geopolitical events and economic activity, it's not that we believe that U.S. stocks will underperform and that other countries will win instead. Rather, what we are saying is that owning both exposures can have complementary effects on your portfolio.

Why is this important? Well, as an investor, you want to expand your universe of potential investment returns and gain exposure to the companies that could innovate and grow over the long-term.

So today we will discuss home country bias, which may help to explain why some of us may have believed the U.S. to be ranked higher than 36th place for the global ranking quiz question, in what industries the U.S. has led and how other countries have followed, how other countries are posed to account for a greater proportion of global growth, and finally examples of how you can get started thinking globally with your investment portfolio with vehicles such as ETFs.

So let's start with home country bias.

According to a study of almost 20,000 portfolios, the average U.S. investor owns only 26% international stocks. By comparison, the MSCI ACWI index, a benchmark for measuring geographical diversification, is comprised of nearly 39% international stocks. We believe U.S. investors across the board are leaning too heavily on the U.S.

For example, the average weight of U.S. stocks in an advisor portfolio has increased from 70% four years ago to 74% at the end of 2021.

We've talked a lot about the outperformance of U.S. stocks, but the global economy has experienced rapid growth in the past 20 years which is leading to increased consumption and spurring innovation abroad. The rest of the world makes up 85% of GDP and 96% of the population. In fact, 93% of internet users reside in the rest of the world.

And things aren't slowing down. It's estimated that 96% of the world's internet users will be outside of the U.S. by 2025 and 90% of the world's total GDP will be outside of the U.S. If your portfolio is focused on U.S. companies, you could be missing out on any potential growth that is taking place abroad.

Let’s now move to our next topic. History has shown that where the U.S. has led, others have followed. Let's take a trip around the world to see what innovations have taken place both at and away from home.

Henry Ford began building cars in 1896 and started his own company in 1903. The Ford Motor Company revolutionized mass-production with the first conveyor belt-based assembly line in 1913, producing the Model T (which was introduced in 1908). It's clear that others have followed globally -- from Ferrari to Fiat -- innovation catches on and spreads beyond borders.

Take transportation as an example. We're all familiar with Uber and Tesla in the U.S., but companies like Didi and Nio in China are disrupting transportation in a similar manner but on an even larger scale. For perspective, Uber reports an average of 3 million rides per day in the U.S. -- which seems tiny when compared to Didi's global average of over 60 million rides per day!

Some of the world's most notable innovations have been outside of the U.S. such as Kawasaki's medical robots.

We've also witnessed some remarkable healthcare innovations, particularly in the last few years. Companies like Germany-based BioNTech pioneered the first mRNA vaccines developed to fight COVID-19. And even beyond the pandemic, the company has 8 potential cancer treatments in human trials as a result of their mRNA success.

Telecommunications is another great example -- with the invention of the Bell telephone in the U.S. in 1876 to the Samsung foldable phone in South Korea today -- virtual communication has changed dramatically.

While U.S. companies like Meta, Twitter and Apple are common names in communications, similar giants like WeChat, TikTok and Samsung are all products of international innovation.

It's clear that innovation is present across the world -- in fact, significant amounts of tech innovation are occurring outside of our borders with U.S. share of venture capital investments falling from 95% to 50% over the past two decades. Close to half of China’s population alone has not yet to accessed the internet -- that's over 700 million people who have never made a mobile payment, tweeted, ‘liked’ or streamed anything. And as you think about the amazing returns of US equities over the last few years, so much growth has probably been driven by those same activities. Those same activities could now be coming to the rest of the world at a more rapid pace and at a time when many US investors are underweight global equities

It's no doubt that the world is changing -- in recent years we have seen hyper- regionalization. From COVID disruptions to trade tensions, our view at iShares is that the trend towards deglobalization could continue and it could be harder to capture international exposure through a U.S.-only lens.

Conventional wisdom would tell us that U.S. companies are in fact exposed to global growth -- after all, U.S. companies experienced 11% growth in foreign revenues a decade ago. Fast forward to today and that picture is very different -- U.S. companies are only experiencing foreign revenue growth of 3%. In other words, as emerging economies have matured and grown, more local companies are capturing a bigger share of bigger pies.

5G is the 5th generation mobile network and the new global wireless standard. It has the power to transform the way we connect -- faster download speeds, lower latency and more capacity and connectivity across billions of devices. But did you know that Asian economies, such as South Korea and China, boast the most cities with 5G coverage in the world?

Growth and innovation will continue both in the U.S. and abroad -- but opening our eyes to the opportunities away from home will be crucial in the coming years.

So, how should one think about global stocks in the context of a portfolio?

Well, too much of a good thing may have some drawbacks. There's concentration in The FAANGM cohort of technology firms in the US and most investors, just by holding the S&P 500, are very exposed to these firms, introducing concentration risk.

Speaking of risk - looking abroad doesn't necessarily mean more risk -- in fact adding international equities can lower overall risk. As demonstrated by the chart on the right, a U.S. only portfolio has a one-year estimated risk, or standard deviation, of 16% vs. 14% for a global equity index allocation with 40% in international markets.

And just as globalization has resulted in greater inter-connectedness among businesses and products, it has also allowed for more global market access. ETFs and Mutual Funds allow investors to travel anywhere in the search for opportunity.

There are a number of ways to access international investments -- broad funds spanning from core, sustainable to active as well as targeted funds through Megatrends and Precision.

iShares offers a broad range of ETFs that seek to track indexes all over the world. For broad international investing, our Core lineup includes funds like, IXUS for broad international exposure across developed and emerging market companies, IEFA for exposure to stocks in Europe, Australia, Asia, and the Far East, and IEMG for emerging market stocks. These ETFs can help investors build diversified international exposure into their portfolios. iShares also offers Sustainable options for investors with funds like: ESGD for sustainable developed international exposure, and ESGE for emerging markets exposure.

As you may be able to tell, international ETFs can help investors gain exposure to a diverse set of international companies. Some of you maybe familiar with NBC's televised talent competition America's Got Talent. And you've been flabbergasted by 15 seasons of American singers, dancers, magicians, and more. If any of you have heard the melodious voice of Susan Boyle from Britain's Got Talent, you'll know this show was not a U.S. exclusive. Countries like Germany, New Zealand, and Malaysia -- just to name a few - all have their "Got Talent" shows. And while I'm still perfecting my Simon Cowell impersonation, the point of bringing up this show is to say that while we all have considerable talent and opportunities for innovation here -- so do more than 47 other countries in the world! Hopefully you have learned the reasons why we should challenge traditional home country bias and remember that the rest of the world may be an essential ingredient in a diversified portfolio.

Thank you for joining us today and we hope this has been an informational look at investing internationally.

Visit iShares.com to view a prospectus which includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing. Investing involves risk, including possible loss of principal.

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Top 10 Constituents

IXUS	Weight (%)	IEFA	Weight (%)	IEMG	Weight (%)	ESGD	Weight (%)	ESGE	Weight (%)
Taiwan Semiconductor Manufacturing	1.54	Nestle SA	2.03	Taiwan Semiconductor Manufacturing	5.26	Nestle SA	2.45	Taiwan Semiconductor Manufacturing	6.65
Nestle SA	1.27	Roche Holding Par AG	1.45	Tencent Holdings Ltd	3.76	Roche Holding Par AG	1.7	Tencent Holdings Ltd	4.25
Tencent Holdings Ltd	1.1	Astrazeneca PLC	1.26	Alibaba Group Holding Ltd	2.89	ASML Holding NV	1.58	Alibaba Group Holding Ltd	3.37
Roche Holding Par AG	0.9	Shell PLC	1.22	Samsung Electronics Ltd	2.79	Astrazeneca PLC	1.54	Samsung Electronics Ltd	3.35
Alibaba Group Holding Ltd	0.84	ASML Holding NV	1.2	Meituan	1.36	Novo Nordisk Class B	1.49	Meituan	1.76
Samsung Electronics Ltd	0.81	Novo Nordisk Class B	1.16	Reliance Industries Ltd	1.34	Novartis AG	1.28	Reliance Industries Ltd	1.36
Astrazeneca PLC	0.8	Novartis AG	1.15	JD.com Class A Inc	0.86	BP PLC	1.24	China Construction Bank Corp H	1.16
Shell PLC	0.77	LVMH	1.05	China Construction Bank Corp H	0.86	Toyota Motor Corp	1.23	Infosys Ltd	0.97
ASML Holding NV	0.75	Toyota Motor Corp	1.01	Infosys Ltd	0.83	Totalenergies	1.19	Cathay Financial Holding Ltd	0.9
Novo Nordisk Class B	0.73	BHP Group Ltd.	0.89	Cia Vale Do Rio Doce SH	0.78	LVMH	1.15	Tata Consultancy Services Ltd	0.89

Source: BlackRock as of 06/30/22. Constituents subject to change.

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Investing involves risk, including possible loss of principal.

Buying and selling shares of ETFs may result in brokerage commissions.

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