

# THE BASICS OF iSHARES® ETFs

iShares Exchange Traded Funds (ETFs) are some of the fastest-growing investment vehicles in the financial markets today. Like index mutual funds, ETFs are portfolios of stocks or bonds that track a specific market index. Like stocks, ETFs can be bought and sold, long or short,<sup>1</sup> on an exchange throughout the trading day. In 2006, U.S. assets in ETFs grew 40% — from around \$300 billion to more than \$422 billion by year end<sup>2</sup> — as investor demand for trading flexibility, transparency and cost efficiency increased.

## LOW EXPENSES

Expense ratios for ETFs tend to be significantly lower than those of traditional mutual funds. Higher expenses can adversely affect fund performance.

MORNINGSTAR FUND CATEGORY	AVERAGE ACTIVE FUND (%)	AVERAGE INDEX FUND (%)	iShares Funds (%)
U.S. Taxable Bond	1.08	0.45	0.15 iShares Lehman 1-3 Year Treasury 0.15 iShares iBoxx \$ Investment Grade Corporate
Large Blend	1.37	0.59	0.09 iShares S&P 500
Large Value	1.37	0.90	0.20 iShares Russell 1000 Value 0.18 iShares S&P 500 Value
Small Blend	1.56	0.68	0.20 iShares Russell 2000 0.20 iShares S&P SmallCap 600
Diversified Foreign Equity	1.79	0.71	0.35 iShares MSCI EAFE 0.75 iShares MSCI Emerging Markets
Specialty Equity	1.69	0.70	0.48 iShares DJ U.S. Sector Series

Source: Strategic Insights, 12/06. The annual management fees of iShares may be substantially less than those of most mutual funds. iShares transactions will result in brokerage commissions, but the savings from lower annual fees can help offset these costs.

## TRADING FLEXIBILITY

iShares funds may provide the opportunity to better manage risk.

Own an entire market in a single transaction	Buy/sell throughout the trading day	Place stop and/or limit orders	Buy/sell short in margin accounts <sup>1</sup>	Options available on some ETFs	No investment minimum	No round lot purchase necessary
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1. With short sales, you risk paying more for a security than you received from its sale and losses may be unlimited. 2. Source: Strategic Insights. Includes exchange traded grantor trusts. 3. Mutual funds and iShares funds are obligated to distribute portfolio gains to shareholders by year end. These gains may be generated due to index rebalancing or to meet diversification requirements. Your own iShares trading too, will generate tax consequences and transaction expenses. Certain traditional mutual funds can be tax efficient as well.

## TAX EFFICIENCY

Like higher expenses, taxes can adversely impact fund performance. Index funds typically buy and sell securities less often than actively managed mutual funds, decreasing the likelihood of capital gain distributions. Additionally:

- Mutual fund shareholders purchase and redeem shares from the fund, which may result in capital gains distributions to *all* shareholders
- ETF shareholders buy and sell shares on an exchange—a transaction which does not affect other shareholders<sup>3</sup>

### Percent of active managers UNDERPERFORMING the index (from 12/31/96 to 12/31/06)

	Value (%)		Blend (%)		Growth (%)	
	BEFORE TAX	AFTER TAX	BEFORE TAX	AFTER TAX	BEFORE TAX	AFTER TAX
Large-Cap	85	96	69	86	37	56
Mid-Cap	87	100	54	84	46	70
Small-Cap	65	93	19	47	18	31

Sources: Morningstar, U.S. equity mutual funds, Russell Indexes. Past performance is no guarantee of future results. All total returns reflect 10-year annualized figures. Funds are categorized by Morningstar objective.

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## PRECISION & DIVERSIFICATION

iShares ETFs, managed by Barclays Global Fund Advisors, track more than 120 different indexes. Each modular component represents a specific asset class, style, sector, country or region.

Now you can implement a targeted asset allocation strategy or fine-tune a tactical one while partaking in the diversification offered by index funds. Indexing is not just the S&P 500 anymore.

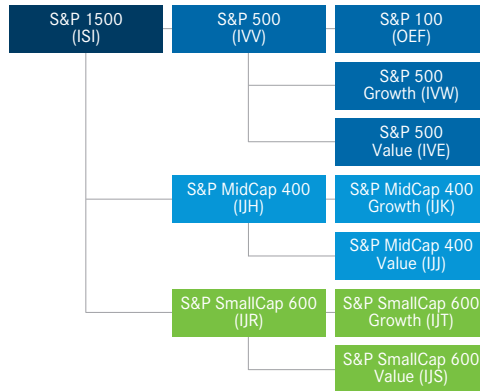
## COMMON USES OF iSHARES FUNDS

- Diversification
- Portfolio completion
- Sector rotation
- Tax-loss harvesting
- Cash equitization
- Duration/credit adjustment
- Hedging

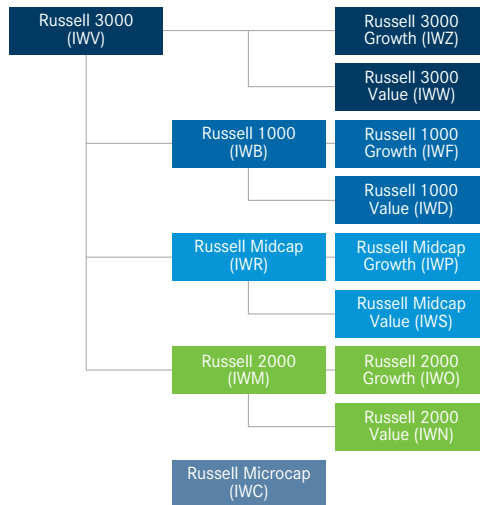
Contact your financial professional to learn how these strategies and how iShares ETFs may solve your portfolio needs.

### Sample Modular View (visit iShares.com for a complete listing)

#### STANDARD & POOR'S (S&P)



#### RUSSELL



#### DOW JONES TOTAL MARKET SECTORS

U.S. Total Market (IYY)	U.S. Basic Materials (IYM)	U.S. Healthcare (IYH)
	U.S. Consumer Services (IYC)	U.S. Industrial (IYJ)
	U.S. Consumer Goods (IYK)	U.S. Technology (IYW)
	U.S. Energy (IYE)	U.S. Telecom. (IYZ)
	U.S. Financial (IYF)	U.S. Utilities (IDU)

#### FIXED INCOME BROAD MARKET

Lehman Aggregate Bond (AGG)
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#### TREASURY

Lehman TIPS (TIP)	Lehman 7-10 Year Treasury (IEF)	Lehman MBS Fixed-Rate (MBB)
Lehman 1-3 Year Treasury (SHY)	Lehman 10-20 Year Treasury (TLH)	Lehman Short Treasury (SHV)
Lehman 3-7 Year Treasury (IEI)	Lehman 20+ Year Treasury (TLT)	

#### CREDIT

iBoxx \$ Investment Grade Corporate (LQD)	Lehman Government/Credit (GBF)
iBoxx \$ High Yield Corporate (HYG)	Lehman Intermediate Credit (CIU)
Lehman 1-3 Year Credit (CSJ)	Lehman Credit (CFT)
Lehman Intermediate Government/Credit (GVI)	

- Broad Market
- Large-Cap
- Mid-Cap
- Small-Cap
- Micro-Cap

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](http://www.iShares.com). Read the prospectus carefully before investing.

There are risks involved with investing, including possible loss of principal. Diversification may not protect against market risk.

The iShares Funds may be sold throughout the day on the exchange through any brokerage account. However, iShares Funds may only be redeemed directly from the fund by Authorized participants, in very large creation/redemption units.

The iShares Funds ("Funds") are distributed by SEI Investments Distribution Co. (SEI). Barclays Global Fund Advisors (BGFA) serves as an advisor to the Funds. Barclays Global Investors Services (BGIS) assists in the marketing of the Funds. BGFA and BGIS are subsidiaries of Barclays Global Investors, N.A., which is a majority-owned subsidiary of Barclays Bank PLC, none of which is affiliated with SEI.

The iShares funds are not sponsored, endorsed or issued by Lehman Brothers nor are they sponsored, endorsed, issued, sold or promoted by Dow Jones & Company, Inc., iBoxx, Morgan Stanley Capital International, Frank Russell Company, or Standard & Poor's. None of these companies make any representation regarding the advisability of investing in the Funds. Neither SEI nor BGI, nor any of their affiliates, are affiliated with the companies listed above. iBoxx is a registered trademark of International Index Company Limited.

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Not FDIC Insured • No Bank Guarantee • May Lose Value

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