

Bond Congress

Opportunities in Fixed Income



Agenda

Section		Page
1	How has the fixed income landscape changed?	3
2	Fixed income market trends and iShares product development	16
3	Q&A	25

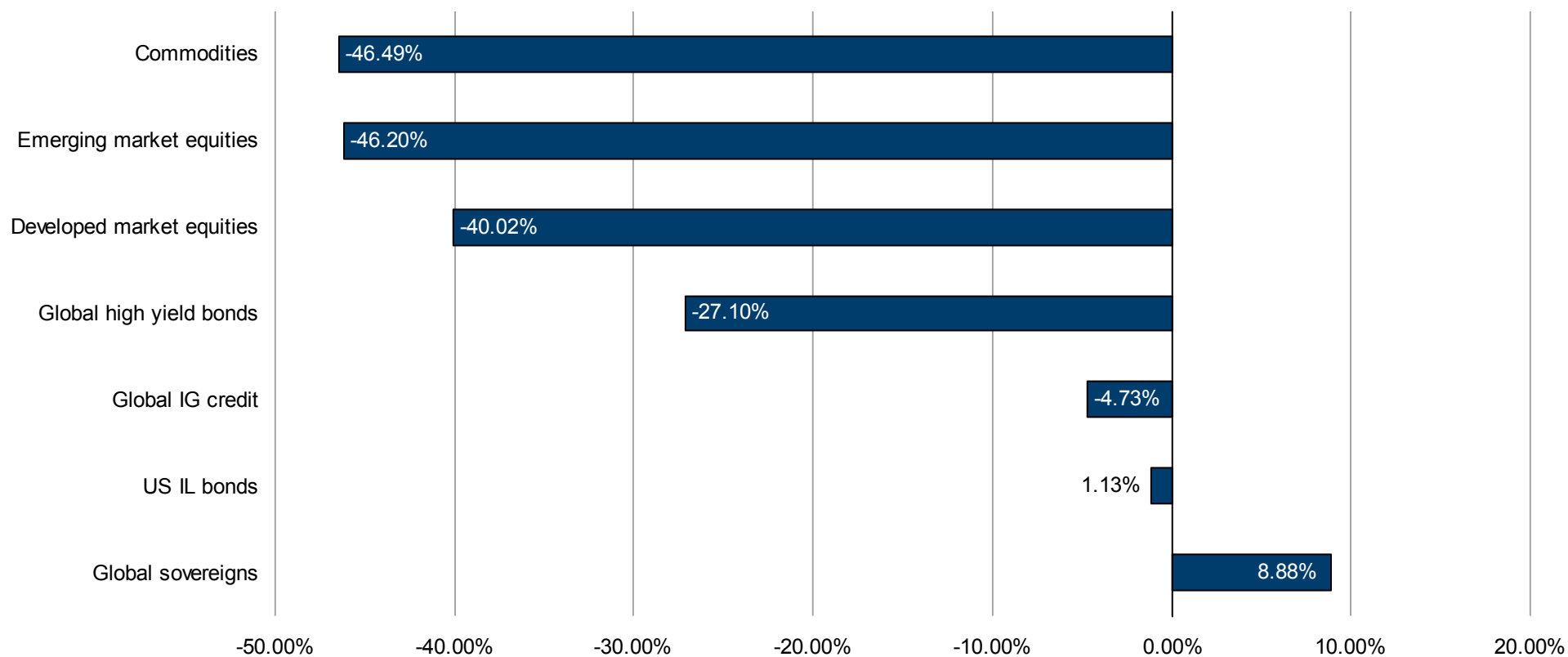
How has the fixed income landscape changed?

Dominic Pegler – Co Global Head Fixed Income Strategy BGI



2008 was a tough year for most asset classes...

Asset class performance

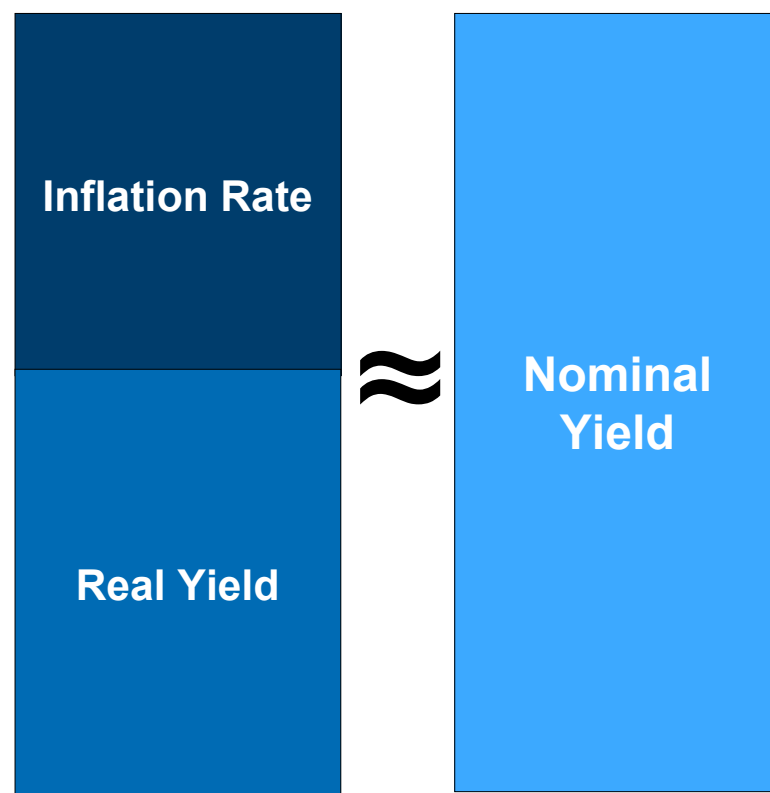


...but falling asset values present opportunities

Source: Equities – FTSE All-World Developed Index (local currency); EM Equities – FTSE Emerging Index (local currency); Commodities – S&P GSCI TR Index (USD); IL bonds – Merrill Lynch US Treasuries IL Index (USD); IG Credit – Merrill Lynch Global IG Broad Market Corporate Index (local currency); High yield – Merrill Lynch Global High Yield Index (local currency); Government bonds – Merrill Lynch Global IG Government Bond Index (local currency)

Inflation-linked government bonds

Protect investors against inflation



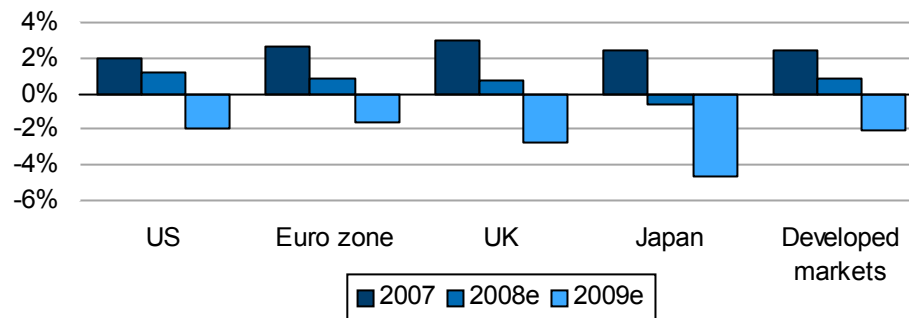
Guarantee a real interest rate will be paid over the life of the security

What drives inflation-linked bond returns?

Changes in real yields

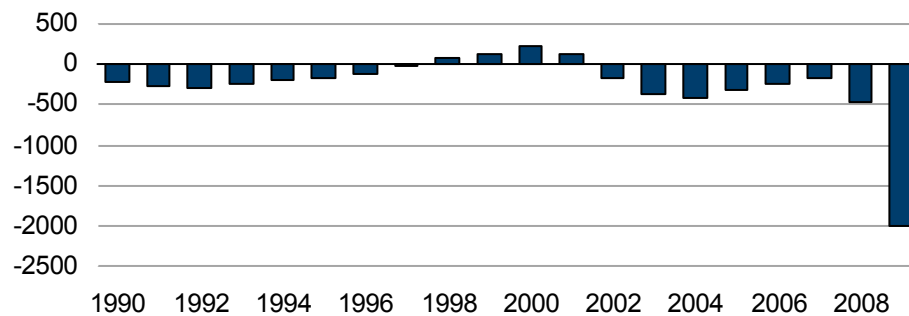
- Expected budget
- Supply/demand imbalances

Real GDP (% over previous period)



US federal deficit

\$ trillion



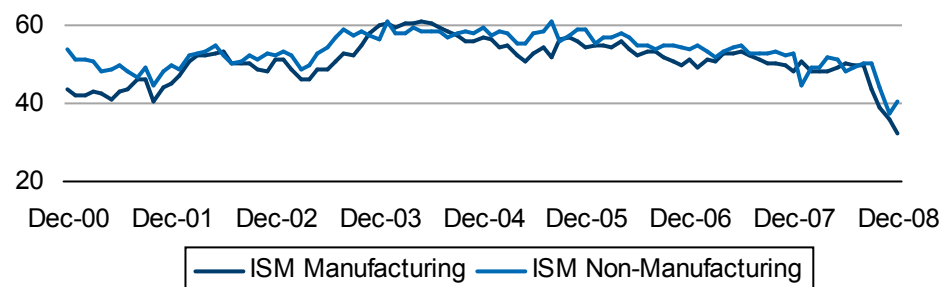
Source: Bloomberg, Barclays Capital estimate of 2009 US deficit

What drives inflation-linked bond returns?

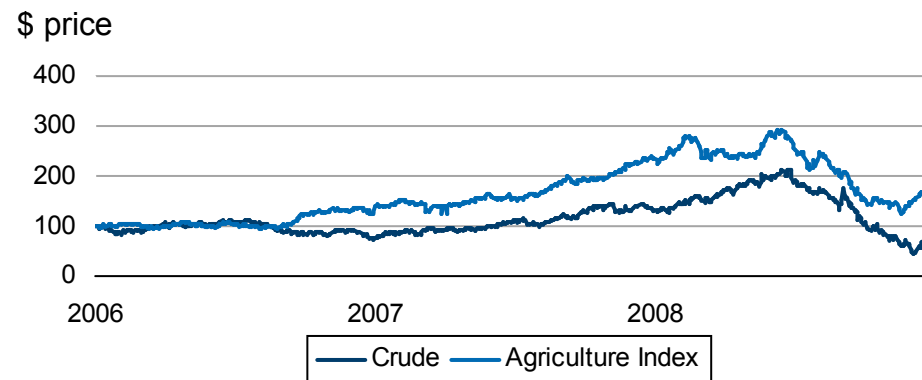
Changes in expected inflation

- 'Demand pull' inflation
- 'Cost push' inflation

Global output is falling



Commodity prices are down on 2007 peaks

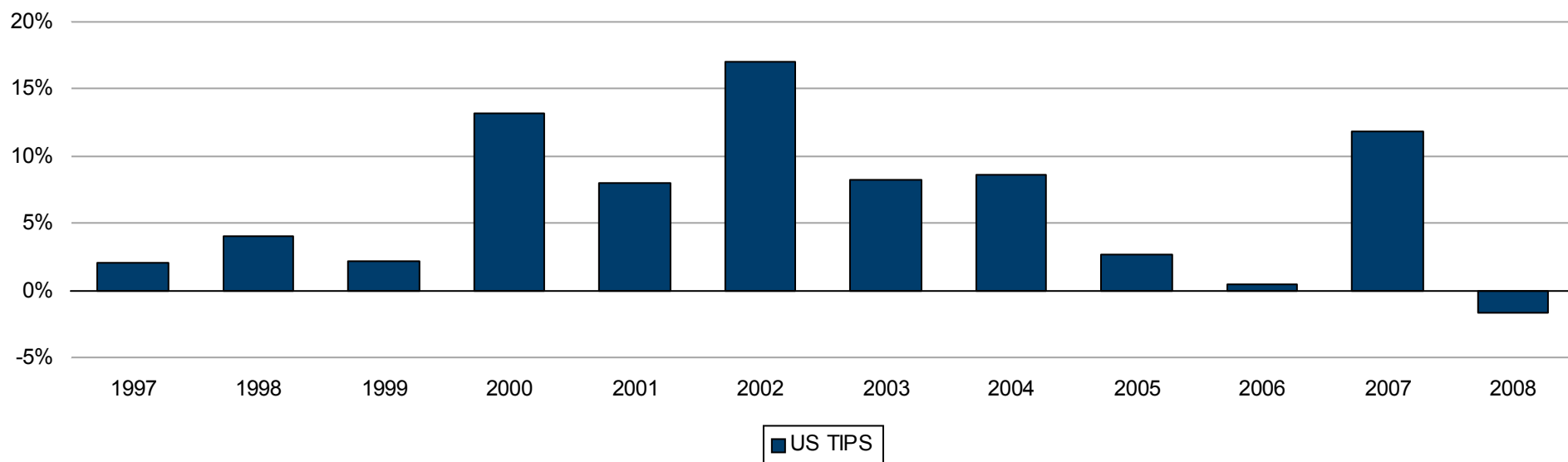


Current market levels

For example – The US TIPS market

- With inflation expected to fall further, why inflation-linked bonds?
- Swift reversal of inflation trend saw IL bond values fall in 2H 2008

Annual returns of Barclays capital US TIPS index



Attractive on valuation grounds?

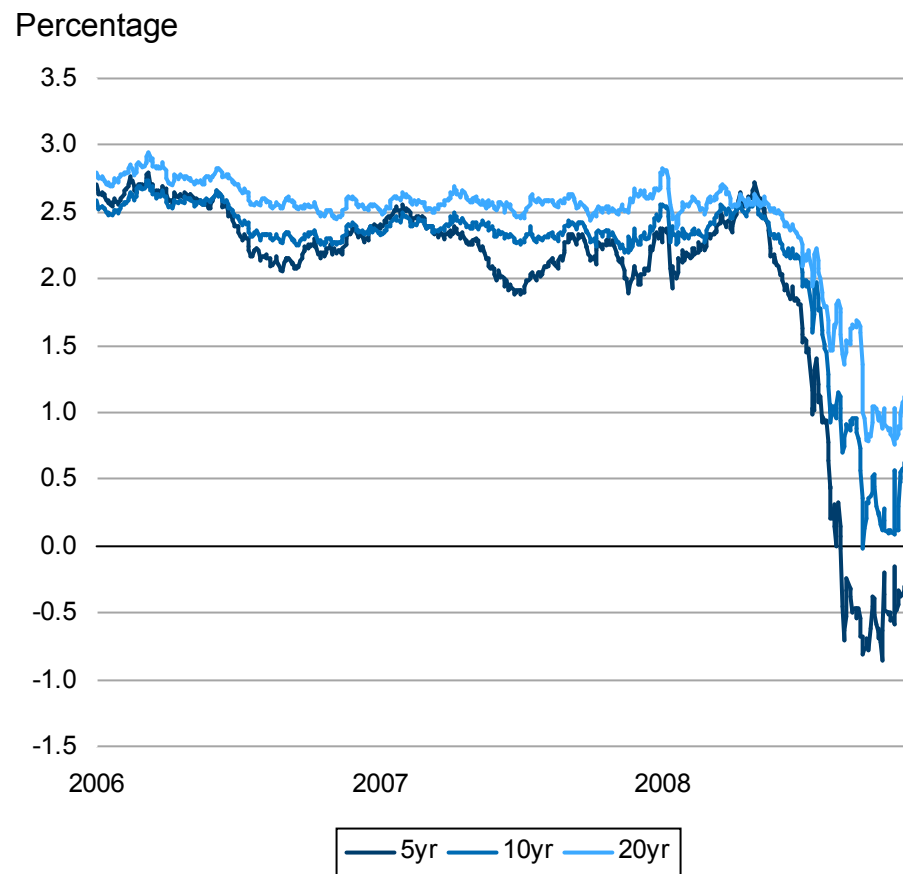
Source: Barclays Capital

Perhaps... but what about expected inflation?

For example – The US TIPS market

- Global economy in recession
- Policymakers trying to revive banks
- Government spending may reignite inflationary pressures
- If so, current levels of expected (breakeven) inflation look attractive

Market's inflation expectations



Source: Bloomberg, US breakevens

What are the opportunities in inflation-linked bonds?

If you expect rising inflation?

- Prefer inflation-linked to fixed rate bonds

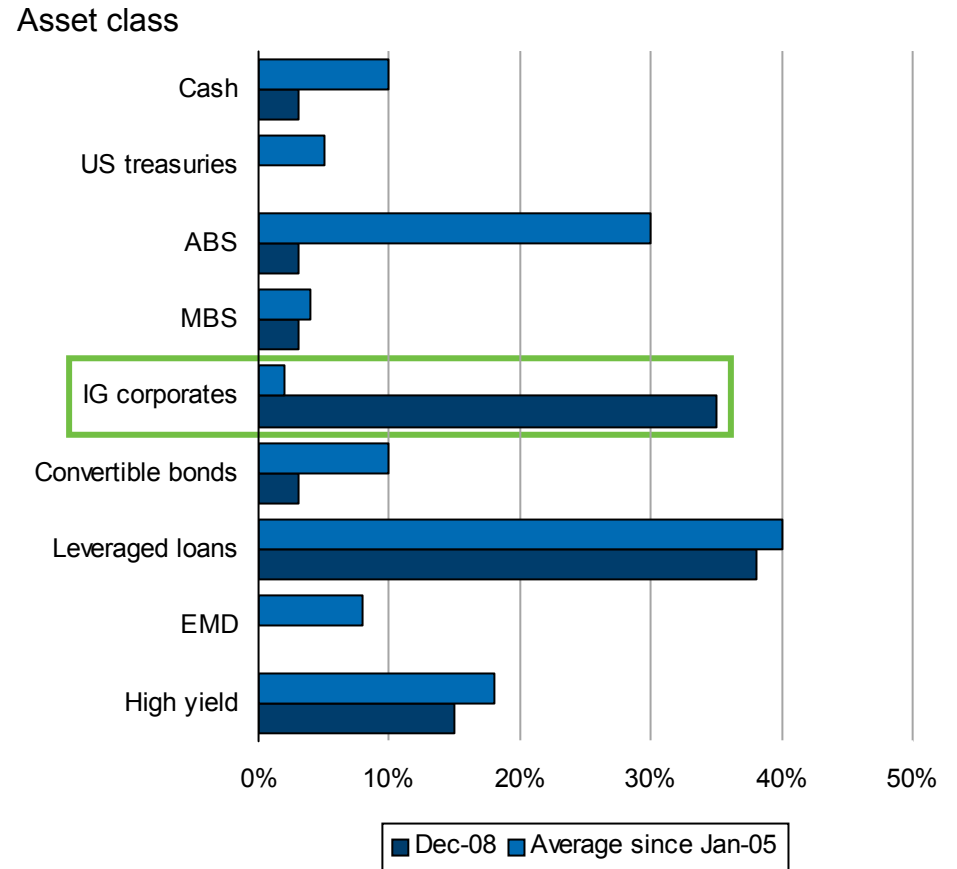
If you expect an extended period of deflation?

- Prefer fixed rate bonds to inflation-linked

Increased demand for IG corporate bonds

- Which FI asset class do you believe will provide the best risk adjusted returns in the next 12 months?
- Investment grade credit favourite among high grade investors
- Only leveraged loans remain more favoured

Merrill Lynch Quarterly Survey – December 2008

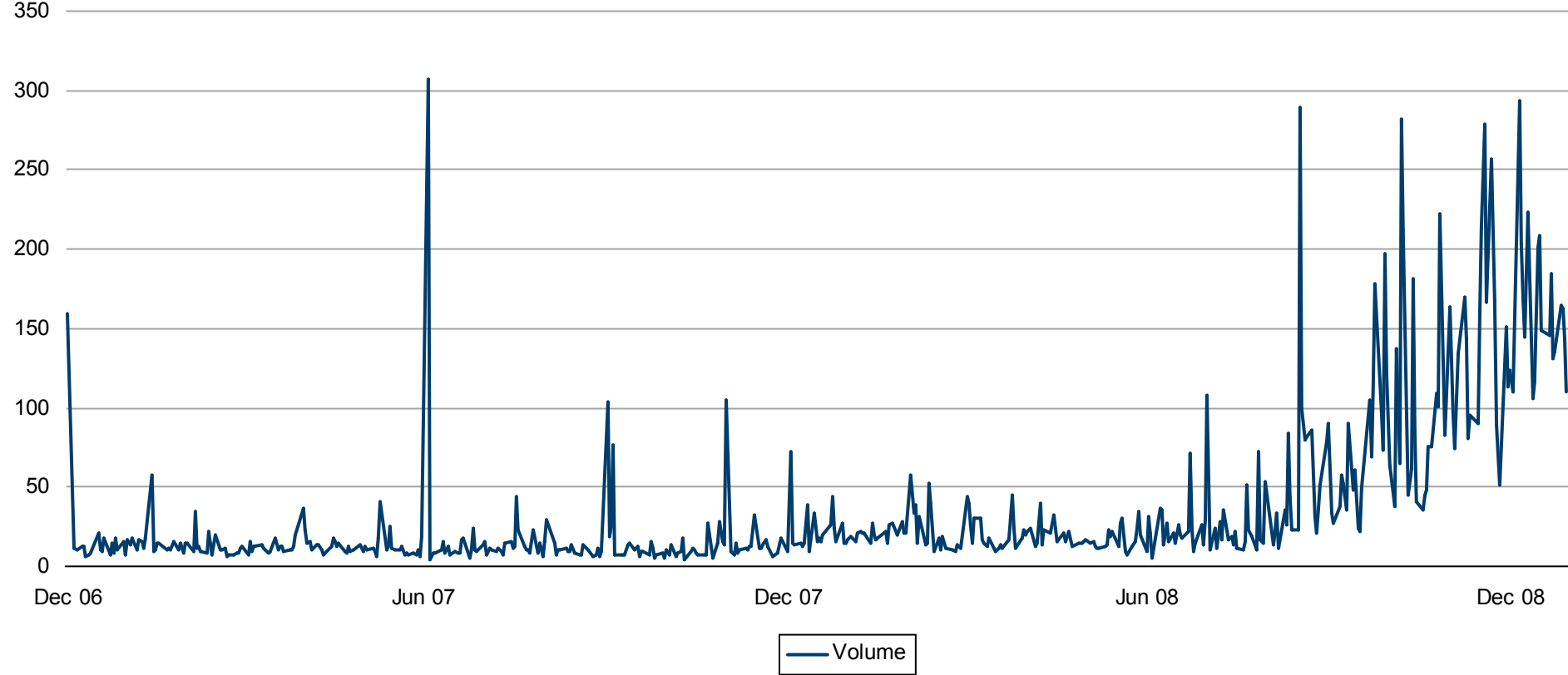


Source: Merrill Lynch Credit Market Survey, 16 Dec 2008

Increased demand for investment grade corporate bonds

Daily trading volumes – iShares \$ Corporate Bond Fund

Trading volumes \$Mn per day

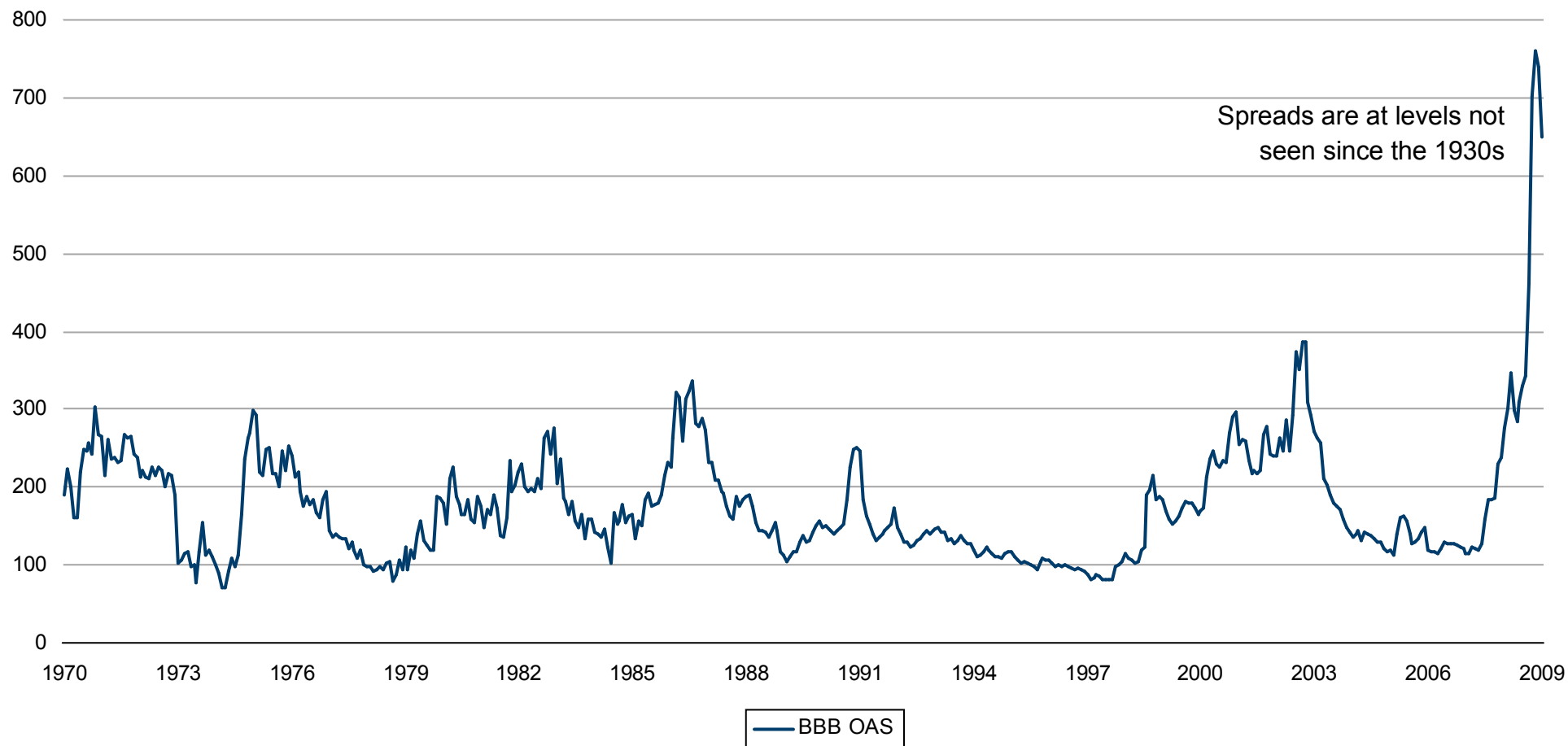


Source: Bloomberg

Why such interest in corporate bonds over the last few months?

BBB rated US corporate bonds

bps

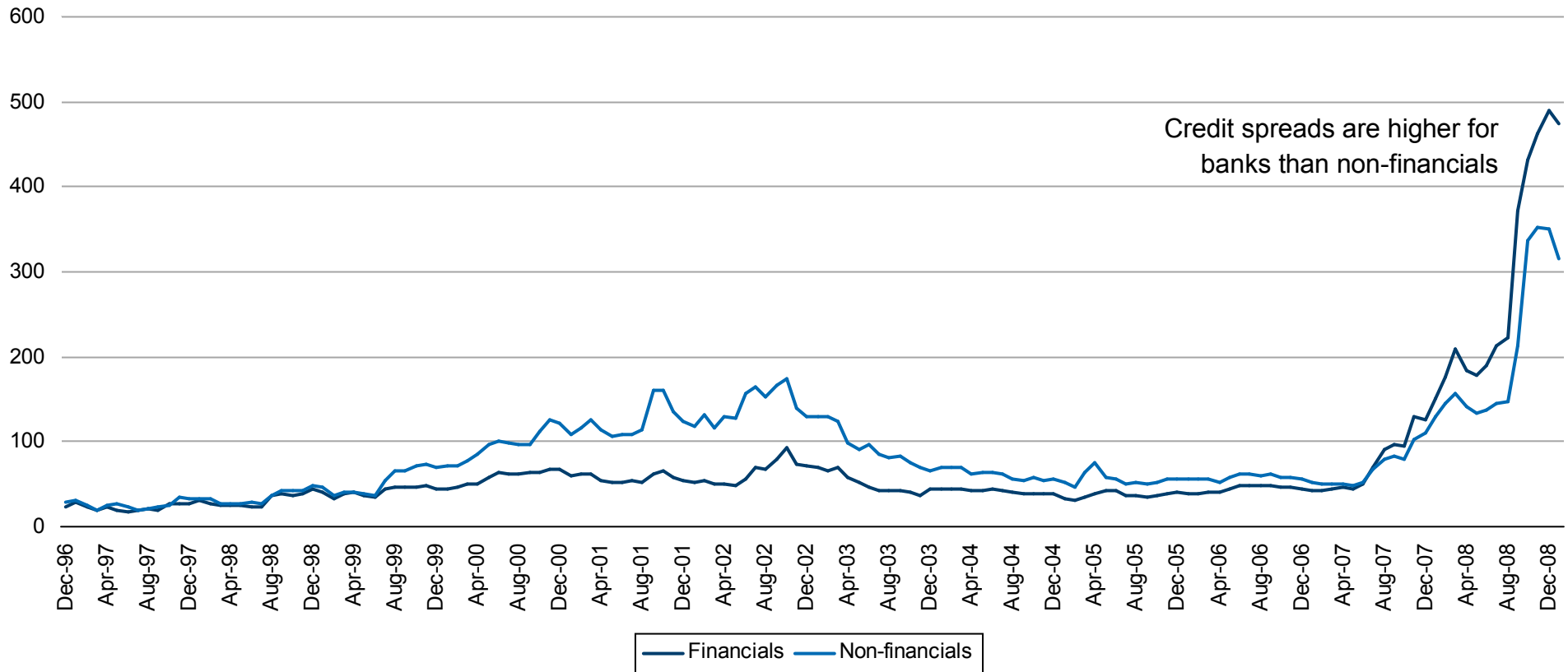


Source Datastream

Why such interest in corporate bonds over the last few months?

Euro corporate bonds – financials versus non-financials

bps

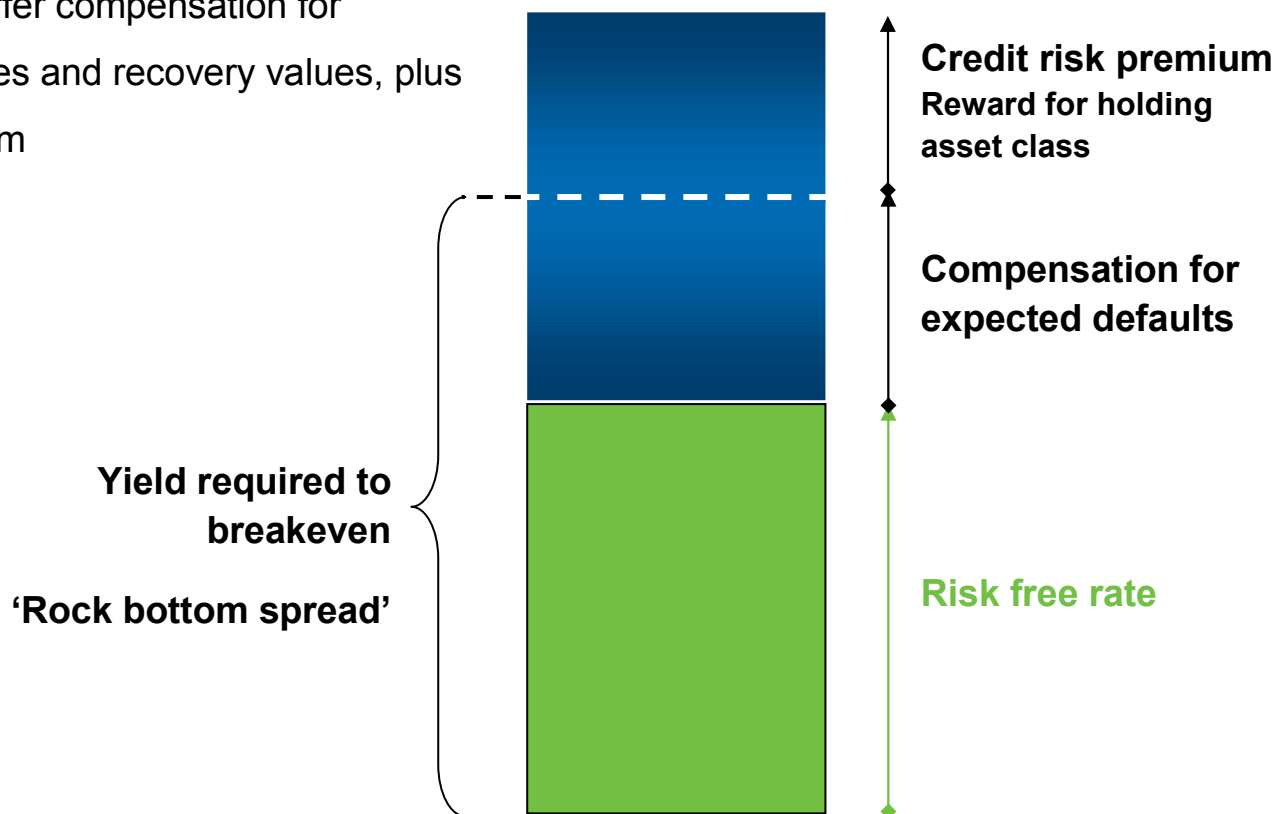


Source: Markit iBoxx

Valuations alone may not be enough

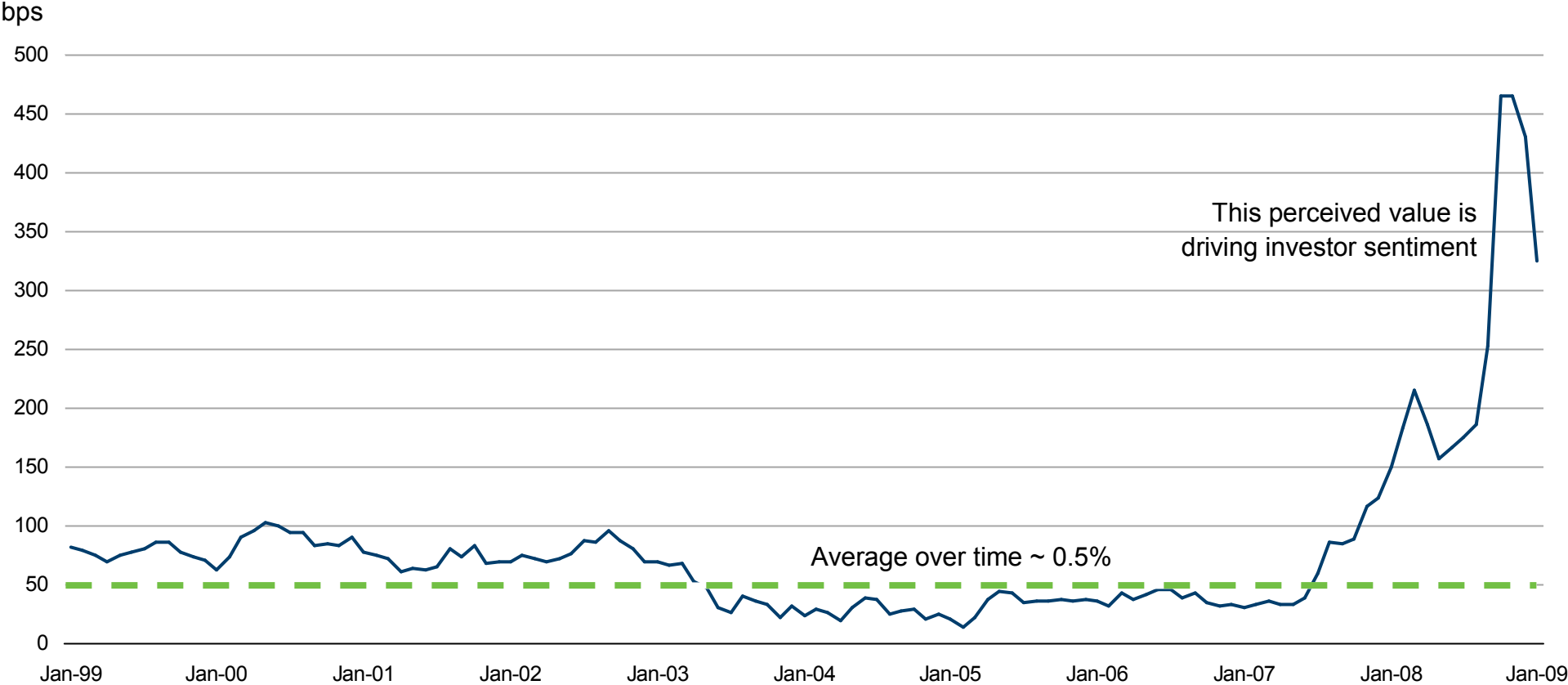
Need to assess fundamental value

- Credit spreads should offer compensation for
 - Expected default rates and recovery values, plus
 - Illiquidity risk premium



Rock bottom spread versus observed spread

BBB+ US credit risk premium (basis points)



Source: Source: BGI. Credit risk premium reflects current market spreads, expected default and recovery rates.

Opportunities in fixed income

Inflation-linked assets have cheapened in recent months

- Global slowdown and falling commodity prices have swept away inflation concerns
- But will government stimulus plans lead to inflation?

Surveys indicate demand is rising for investment grade corporates

- Credit spreads have reached the highest levels since the 1930s depression
- Defaults are expected to rise but credit risk premia at attractive levels

Fixed income market trends and product development

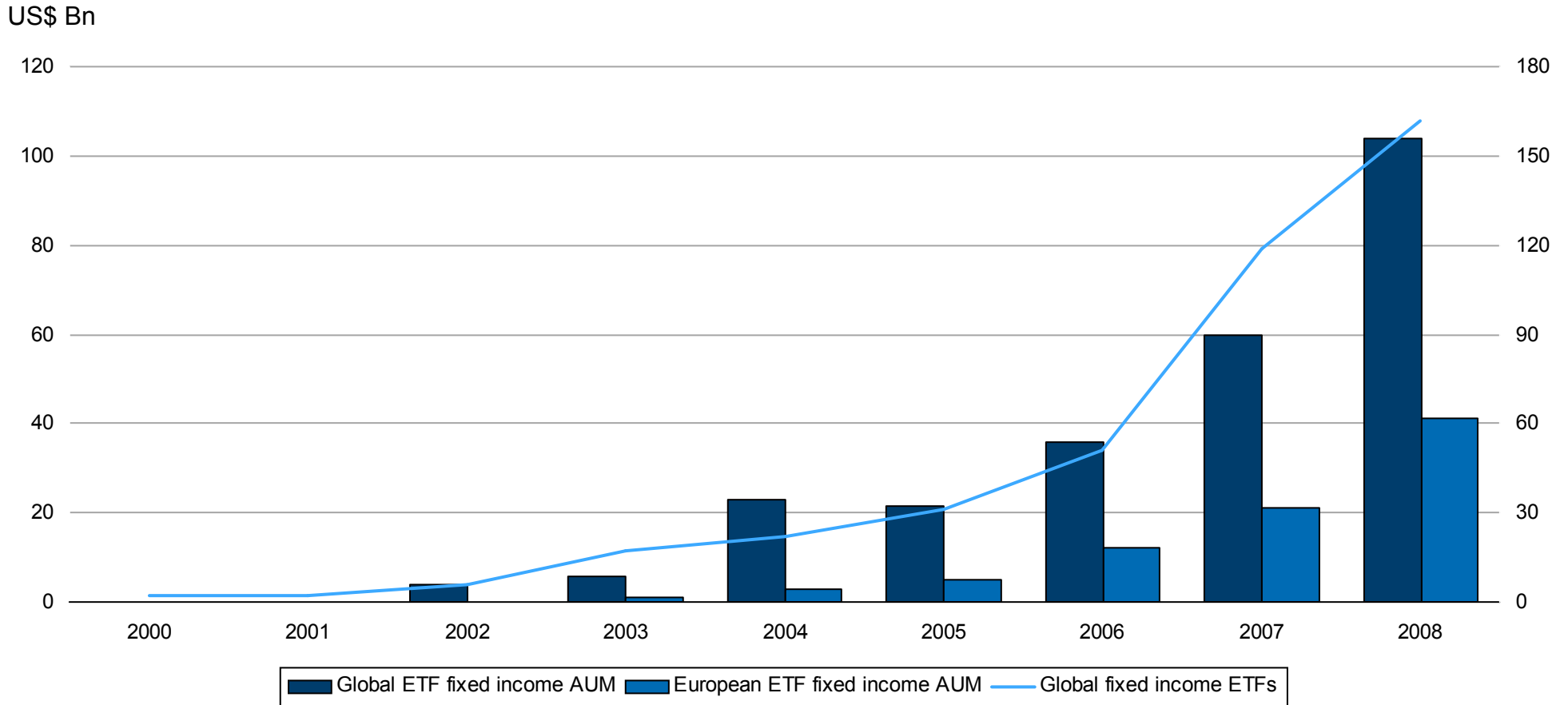
Alex Claringbull – Senior Portfolio Manager BGI



Fixed income ETF market growth

European fixed income ETFs make up 40% of the global fixed income ETF market

Fixed income ETF growth

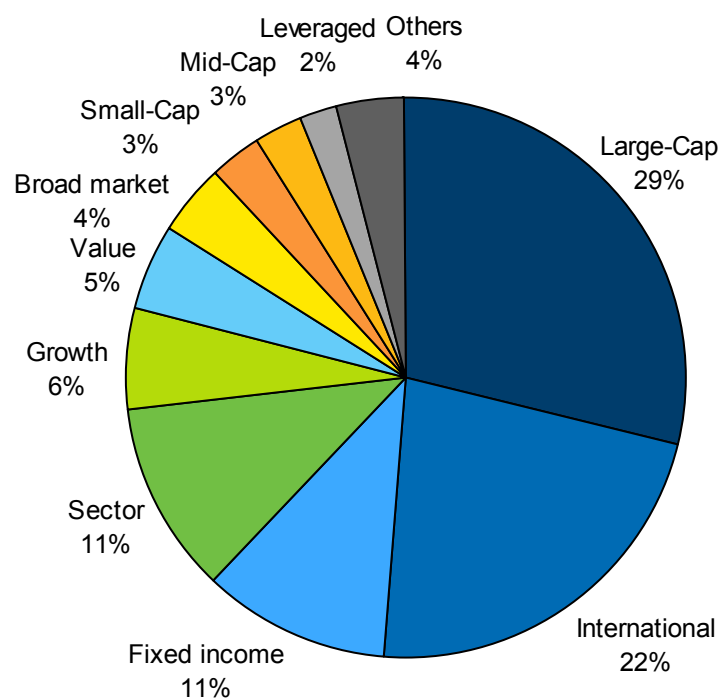


Source: BGI

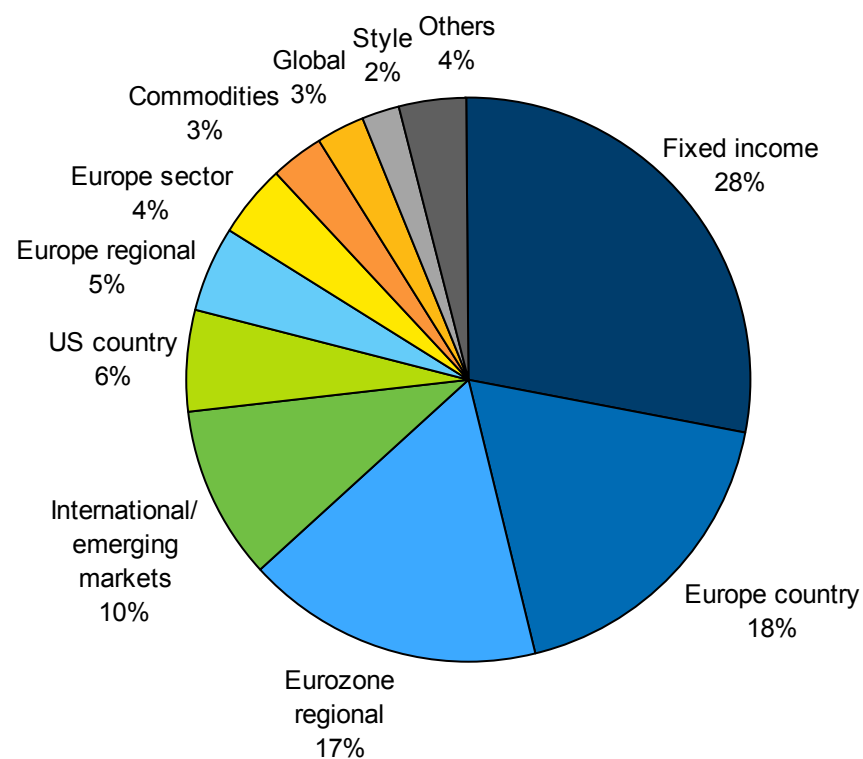
Composition of ETF market – globally and in Europe

Fixed income ETFs are the main area of interest for European investors

Global ETF exposures



European ETF exposures



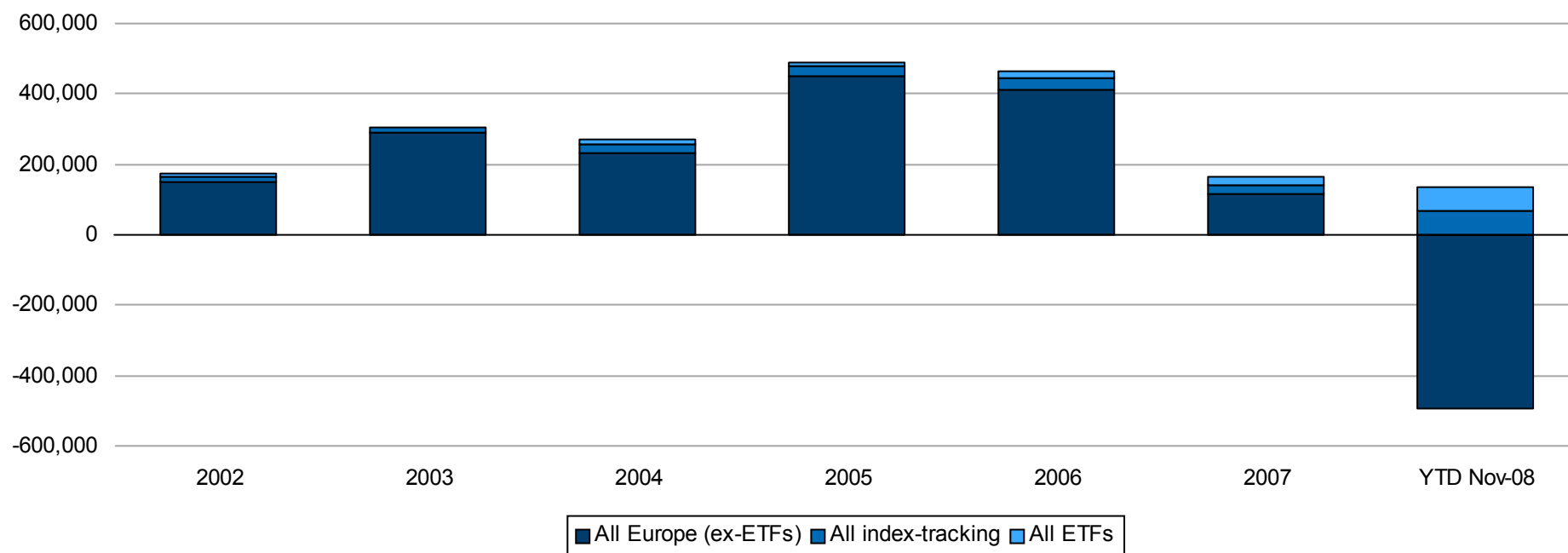
Source: BGI, ETF Industry Preview Year End 2008. As at 31 December 2008.

European fund industry 2008

Net sales data through November 2008 – Lipper Feri

Net sales data through November 2008 – Lipper Feri

Estimated net sales US\$ Mn



	2002	2003	2004	2005	2006	2007	YTD Nov-08
All ETFs	8,782.5	4,105.8	11,755.1	13,109.9	19,354.3	20,961.0	67,046.0
All index-tracking	17,607.6	14,292.8	23,662.7	26,880.9	30,234.9	26,598.2	66,140.1
All Europe (ex-ETFs)	149,202.0	288,513.5	234,604.6	450,509.1	413,256.6	115,780.6	-493,201.5

Source: Lipper FMI

Fixed income ETF market in 2008

Reasons for success

- The four tenants of transparency
 - Costs
 - Holdings
 - Price
 - Product structure
- On-exchange and OTC liquidity and flexibility
 - Trading as a stock during local exchange hours
- Precise beta exposure to defined yield curves and market segments
 - Wide range of index exposures

Introducing five new fixed income iShares...

- iShares Barclays Global Aggregate Bond (expected date of listing: 6 April 2009)
- iShares Barclays Euro Aggregate Bond (expected date of listing: 9 March 2009)
- iShares Barclays Euro Corporate Bond (expected date of listing: 9 March 2009)
- iShares Barclays Euro Treasury Bond 0-1 (expected date of listing: 9 March 2009)
- iShares Citigroup Global Government Bond (expected date of listing: 9 March 2009)

iShares Barclays Global Aggregate Bond

iShares Barclays Euro Aggregate Bond

- Barclays Capital Aggregate Indices
 - Most widely used and accepted benchmarks (ex Lehman indices)
- Access to the global investment grade bond universe
 - Unparalleled levels of diversification
 - Liquidity
- Security
 - Physical structure – iShares ETF hold underlying bonds
- Innovation
 - iShares – first ETFs for Global Aggregate and Euro Aggregate indices
- Building blocks for globally-diversified investor

iShares Barclays Euro Corporate Bond

- Uses Barclays Capital Aggregate Indices - former Lehman Aggregate Indices
- Complement to existing iShares € Corporate Bond ETF (€2bn in size)
- Broadly diversified benchmark
 - >1,200 constituents
 - Total market capitalisation of underlying bonds is over €10 trillion
- Security
 - Investment grade bonds in the fund
 - Cash-based structure: iShares ETF hold underlying bonds

iShares Citigroup Global Government Bond

iShares Barclays Euro Treasury Bond 0-1

- Investment grade bonds
- Cash-based structure: iShares ETF hold underlying bonds
- Exposures
 - Global government – Citigroup WGBI G7 Index
 - Governments of G7 countries: Japan, US, Germany, Italy, France, UK, Canada
 - € Treasury 0-12 months
 - Governments of the European Monetary Union
 - Maturities from 1 to (but not including) 12 months and only bonds with a maturity greater than 12 months at issuance will be included
 - Fixed Coupon paying bonds only, no t-bills
 - Possible alternative to swap-based ETFs
 - Complements the existing iShares eb.rexx® Money Market (DE) ETF (currently EUR 926 million in size)

Q&A



Disclaimer

Regulatory Information

Barclays Global Investors Limited ('BGIL'), which is authorised and regulated by the Financial Services Authority ('FSA'), has issued this document for access by Professional Clients in the UK only and no other person should rely upon the information contained within it. iShares plc, iShares II plc and iShares III plc (together 'the Companies') are open-ended investment companies with variable capital having segregated liability between their funds organised under the laws of Ireland and authorised by the Financial Regulator.

For investors in the UK

This document is directed at 'Professional Clients' only within the meaning of the rules of the FSA. Certain of the funds mentioned in this document are not registered for public distribution in the UK. In respect of these funds, this document is intended for information purposes only and does not constitute investment advice or an offer to sell or a solicitation of an offer to buy the funds described within and no steps may be taken which would constitute or result in a public offering of the funds in the UK. This document is strictly confidential and may not be distributed without authorisation from BGIL. With respect to the funds that are registered for public distribution in the UK, most of the protections provided by the UK regulatory system do not apply to the operation of the Companies, and compensation will not be available under the UK Financial Services Compensation Scheme on its default. The Companies are recognised schemes for the purposes of the Financial Services and Markets Act 2000. Important information is contained in the relevant prospectus, the simplified prospectus and other documents, copies of which can be obtained by calling 0845 357 7000, from your broker or financial adviser, by writing to Barclays Global Investors Limited, iShares Business Development, Murray House, 1 Royal Mint Court, London EC3N 4HH or by writing to the Manager of the Companies: Barclays Global Investors Ireland Limited, New Century House, International Financial Services Centre, Mayor Street Lower, Dublin 1, Ireland.

Restricted Investors

This document is not, and under no circumstances is to be construed as, an advertisement, or any other step in furtherance of a public offering of shares in the United States or Canada. This document is not aimed at persons who are resident in the United States, Canada or any province or territory thereof, where the Companies are not authorised or registered for distribution and where no prospectus for the Companies has been filed with any securities commission or regulatory authority. The Companies may not be acquired or owned by, or acquired with the assets of, an ERISA Plan.

Risk Warnings

Shares in the Companies may or may not be suitable for all investors. Barclays Global Investors Limited does not guarantee the performance of the shares or funds. The price of the investments (which may trade in limited markets) may go up or down and the investor may not get back the amount invested. Your income is not fixed and may fluctuate. Past performance is not a reliable indicator of future results. The value of the investment involving exposure to foreign currencies can be affected by exchange rate movements. We remind you that the levels and bases of, and reliefs from, taxation can change. Affiliated companies of Barclays Global Investors Limited may make markets in the securities mentioned in this document. Further, Barclays Global Investors Limited and/or its affiliated companies and/or their employees from time to time may hold shares or holdings in the underlying shares of, or options on, any security included in this document and may as principal or agent buy or sell securities.

Index Disclaimers

'Barclays Capital' is a trade mark of Barclays Capital, the investment banking division of Barclays Bank PLC ('Barclays Capital'), and is used by Barclays Global Investors under licence. With a distinctive business model, Barclays Capital provides corporates, financial institutions, governments and supranational organisations with solutions to their financing and risk management needs. Barclays Capital compiles, maintains and owns rights in and to the Barclays Capital Global Aggregate Bond Index, Barclays Capital Euro Aggregate Bond Index, Barclays Capital Euro Corporate Bond Index and Barclays Capital Euro Short Treasury (0-12 Months) Bond Index (together the 'indices'). iShares Barclays Global Aggregate Bond, iShares Barclays Euro Aggregate Bond, iShares Barclays Euro Corporate Bond and iShares Barclays Euro Treasury Bond 0-1 ('the funds') are not sponsored, endorsed, sold or promoted by Barclays Capital and Barclays Capital makes no representation regarding the advisability of investing in the funds.

CITIGROUP is a trade mark and service mark of Citigroup Inc. or its Affiliates (collectively, "Citigroup") and have been licensed for use for certain purposes by Barclays Global Investors, Inc. iShares Citigroup Global Government Bond is not sponsored, endorsed, sold or promoted by Citigroup, and Citigroup makes no representation regarding the advisability of investing in such product

eb.rexx® is a registered trademark of Deutsche Börse AG

Markit iBoxx is a registered trade mark of International Index Company Limited ('IIC') and has been licensed for use by Barclays Global Investors Limited. IIC does not approve, endorse or recommend Barclays Global Investors Limited or iShares plc. These products are not sponsored, endorsed or sold by IIC and IIC makes no representation regarding the suitability of investing in these products.

'iShares' is a registered trademark of Barclays Global Investors, N.A. All other trademarks, servicemarks or registered trademarks are the property of their respective owners. © 2009 Barclays Global Investors Limited. Registered Company No. 00796793. All rights reserved. Calls may be monitored or recorded. 769447