



A Different Way to Climb the Bond Ladder

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December 26, 2011

Now if we think about a lot of the solutions investors have built with muni bonds traditionally, bond laddering is one of the most common applications. And the idea is very simple. You can imagine an investor has a short-term investment horizon, they want to invest in a portfolio of muni bonds, maybe they're going to buy five muni bonds that mature one, two, three, four, and five years in the future. The idea of the investment is to go and buy these five securities and to hold them until maturity. And so a year after their investment that one-year bond has matured. They then take the proceeds and reinvest it in a new five-year bond.

And, of course, if they needed that money for some other application, they now have a bond which has matured, and they have the option of being able to take that money and invest it elsewhere. So the latter keeps them exposed to the market, but also provides regular opportunities to make withdrawals out of their investment if they want. Now, one of the things we've seen a growing interest in is a series of funds we call the muni series. And these are a set of iShares that each have a predefined liquidation date. And so each of these funds is set up to actually invest in a set of securities, a set of individual muni bonds that all have a similar maturity.

So, for example, we have an iShares muni series 2012 fund. All the bonds in that fund mature between June and August 2012.

And so what's going to happen for an investor who buys into that fund, the fund is going to pay out a monthly distribution of income, that income is coming off the bonds inside the fund, and as we get to 2012, the actual bonds in the fund will mature. And once all the bonds have matured, the fund will actually pay out the proceeds from all those maturities out to investors. And so for an investor buying into that fund, they get a diversified portfolio of securities that is going to shorten in maturity, much like an individual bond would, and yet also has this predetermined liquidation date, again, much like an individual bond.

And so I think it provides a combination of some of the benefits we see with an iShare -- that diversification, that liquidity, that transparency -- but in a vehicle that addresses some of the objectives of individuals who traditionally buy individual bonds and who ladder bonds.

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