


 EMEA ETF  
OPTIONS

Q2 2018

## ETF options launch

### iShares Gold ETC (IGLN LN)

Key stats: IGLN

**USD3.3bn**Assets under  
management**25**Total Expense Ratio  
(bps)**8**Registered market  
makers on IGLN LN**May 2018**Eurex options launch  
date

**New options contracts on iShares Physical Gold ETF (IGLN LN / \$ listing) launching in May 2018**

In response to growing demand from European investors for implementing ETF options strategies alongside their ETF holdings, Eurex will be launching options on IGLN in May 2018.

#### Gold's time to shine

- 2018 YTD has shown that the record high risk-adjusted return environment of 2017 is well behind us with returns in 2018 more difficult to be found, and at a higher level of volatility (for e.g. VIX mean at 14.29 vs last year 9.87). Nonetheless we see volatility remaining in the low-vol regime, albeit at higher end of this regime range (Past performance is not a reliable indicator of current or future results.)
- Gold is a good diversifier in this type of environment given correlation with equities. For instance, the 30-day correlation between US equities (S&P 500) and gold has most recently been just in negative territory at -0.17 and the 120-day correlation at -0.02 indicating minimal correlation between the two asset classes.
- The caveat? The opportunity cost of holding gold outright may go up in a rate-rise environment, so investors may consider option strategies on gold as a more effective bet. In fact, based on data on large gold ETF option trading in the US, investors have been increasing demand for gold OTM calls, with demand reaching five year highs in April 2018.

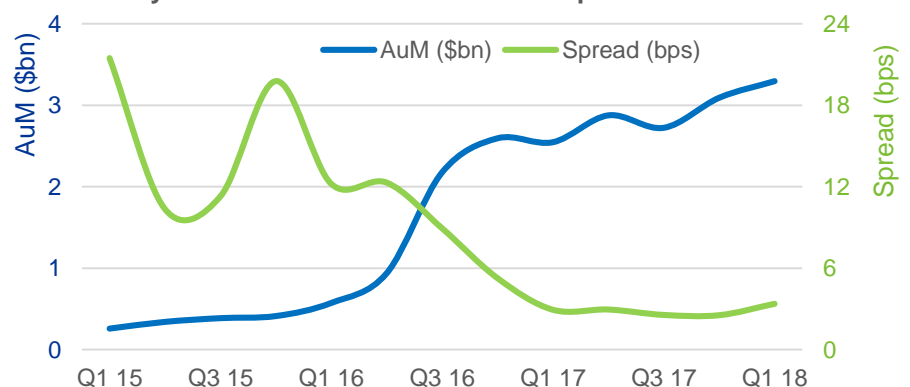
#### IGLN: the fastest growing gold ETP in Europe

Alongside being one of the cheapest Gold ETPs in Europe (25bps TER), IGLN is also the fastest growing; its AuM has increased by x17 to ~USD3.3bn over the past 3 years while spreads have fallen to ~4bps (see chart 1).

#### Key contacts

**iShares Options Team**  
GroupEMEAiSharesOptions  
@blackrock.com  
+44 20 7743 1296

**Chart 1: 3 year evolution of IGLN AuM and spreads**



(Source: Bloomberg, London Stock Exchange, OneTick- (08/04/2018))

## Popular IGLN options implementations

### 1. Overwriting - yield generation

In an environment of low volatility, investors seeking extra yield on their portfolio may look to implement an overwriting strategy – selling out of the money (OTM) calls. This strategy tends to work particularly well with gold as call options on gold tend to be more expensive than puts (U shape volatility).

An overwriting strategy on gold therefore:

- Generates yield from an otherwise yield-less holding
- Reduces max drawdown of the overall position
- Caps the upside potential of the overall position, which also reduces volatility and improves risk-adjusted returns

Based on indicative levels as of 8<sup>th</sup> April 2018, a client would have received a ~1.98% premium by selling a 5% OTM call maturing in 6 months, (see highlighted box in chart 2).

Please note that by selling an OTM call option, investors cap their upside potential when the underlying market rallies beyond the selected strike price. Hence there are periods in which an overwriting strategy could be unprofitable overall.

### 2. UCITs eligible synthetic exposure

One key recurring limitation for clients running UCITs portfolios are compliance restrictions around options contracts that could lead to physical delivery of underlying gold bars. These restrictions prevent investors from holding gold commodity options and options on gold futures (since gold futures themselves are physically exercised).

Options on a UCITs eligible vehicle allows investors to obtain an unfunded exposure to gold. This strategy involves a client buying puts and calls at a same strike and maturity to replicate a long exposure – similarly a client could sell puts and calls to replicate a short exposure to gold. These options can then be exercised physically into UCITs eligible ETF shares or into cash via flex options.

### Comparing IGLN (ETF) options with gold futures (GC1) options

IGLN options offer the following advantages over GC1 options:

1. Physically exercised into a UCITs eligible instrument
2. Smaller contract sizes (~USD2,600 vs ~USD120K) offer more flexibility
3. Flex options enable investors to exercise their options vs cash

IGLN options		GC1 options
<b>Delivery</b>	Physical: UCITs eligible vehicle	Physical: futures that themselves physically exercised into gold bars
<b>Type</b>	American	American
<b>Flex available</b>	Yes	No
<b>Contract size</b>	~USD2,600	~USD135K

IGLN LN	1m	2m	6m	1y
50%	0.00%	0.00%	0.00%	0.00%
60%	0.00%	0.00%	0.00%	0.01%
70%	0.00%	0.00%	0.00%	0.04%
80%	0.00%	0.01%	0.04%	0.21%
90%	0.01%	0.06%	0.30%	0.93%
95%	0.07%	0.20%	0.97%	2.01%
98%	0.39%	0.78%	1.89%	3.07%
100%	1.32%	1.97%	3.86%	6.15%
102%	0.62%	1.18%	2.96%	5.17%
105%	0.22%	0.56%	1.98%	3.97%
110%	0.05%	0.19%	1.05%	2.58%
120%	0.01%	0.03%	0.35%	1.17%
130%	0.00%	0.01%	0.14%	0.60%
140%	0.00%	0.00%	0.07%	0.33%
150%	0.00%	0.00%	0.03%	0.20%

Chart 2: Indicative premium matrix on IGLN options

Source: Morgan Stanley (08/04/2018)

## **Regulatory Information**

BlackRock Advisors (UK) Limited, which is authorised and regulated by the Financial Conduct Authority ('FCA'), having its registered office at 12 Throgmorton Avenue, London, EC2N 2DL, England, Tel +44 (0)20 7743 3000, has issued this document for access by Qualified Investors only and no other person should rely upon the information contained within it. For your protection, calls are usually recorded. iShares Physical Metals public limited company (the "Issuer") was incorporated in Ireland under registration number 494646 on 7 February 2011 with limited liability and is organised under the laws of Ireland as a Public Limited Company ("plc") pursuant to the Companies Act, 2014. It has been established as a special purpose vehicle for the purpose of issuing asset backed debt securities. Each iShares Exchange Traded Commodity (ETC) is a series of debt securities. The base prospectus of the Issuer for the iShares ETCs ("Base Prospectus") has been drawn up in accordance with the Prospectus Directive 2003/71/EC and approved by the Central Bank of Ireland, as competent authority under the Prospectus Directive.

### **For investors in Austria**

The Base Prospectus (including any Supplement) as well as the annual and semi-annual reports for the Issuer ("Securities Documentation") are published electronically and are available free of charge on the website [www.ishares.at](http://www.ishares.at). A paper copy is available free of charge from BlackRock, Max-Joseph-Str. 6, 80333 Munich, Germany. The Issuer has requested the Central Bank to notify its approval of the Base Prospectus to the competent authority in Austria by providing the competent authority, inter alia, with a certificate of approval attesting that this Base Prospectus has been drawn up in accordance with the Prospectus Directive. Any decision to invest in the ETC securities must be based solely on the information contained in the Securities Documentation. Investors should read the risks in the Base Prospectus. An offer of ETC securities to the public in Austria must comply with the Austrian Capital Market Act (Kapitalmarktgesetz) as supplemented and amended from time to time.

The tax treatment depends on the individual circumstances of each investor and may be subject to change in the future. You should obtain specific professional tax advice before making any investment decision.

### **For investors in Denmark**

### **For investors in Finland**

The Base Prospectus (including any Supplement) as well as the annual and semi-annual reports for the Issuer ("Securities Documentation") have been published electronically and are available free of charge on the website [www.ishares.com](http://www.ishares.com). A paper copy is available free of charge from BlackRock Investment Management LTD, Norrlandsgatan 16, 111 43 Stockholm, Sweden. The Issuer has requested the Central Bank to notify its approval of the Base Prospectus to the competent authority in Finland by providing the competent authority, inter alia, with a certificate of approval attesting that this Base Prospectus has been drawn up in accordance with the Prospectus Directive. Any decision to invest in the ETC securities must be based solely on the information contained in the Securities Documentation. Investors should read the risks in the Base Prospectus. Any offer or sale, directly or indirectly, any of the Securities to the public in Finland must be in compliance with all applicable provisions of the laws of Finland and especially in compliance with the Finnish Securities Market Act (746/2012) as supplemented and amended from time to time.

The tax treatment depends on the individual circumstances of each investor and may be subject to change in the future. You should obtain specific professional tax advice before making any investment decision.

### **For investors in Germany**

The Base Prospectus (including any Supplement) as well as the annual and semi-annual reports for the Issuer ("Securities Documentation") are published electronically and are available free of charge on the website [www.ishares.com](http://www.ishares.com). A paper copy is available free of charge from BlackRock, Max-Joseph-Str. 6, 80333 Munich, Germany. The Issuer has requested the Central Bank to notify its approval of the Base Prospectus to the competent authority in Germany by providing the competent authority, inter alia, with a certificate of approval attesting that this Base Prospectus has been drawn up in accordance with the Prospectus Directive. Any decision to invest in the ETC securities must be based solely on the information contained in the Securities Documentation. Investors should read the risks in the Base Prospectus.

The tax treatment depends on the individual circumstances of each investor and may be subject to change in the future. You should obtain specific professional tax advice before making any investment decision.

### **For investors in Ireland**

## **For investors in Luxembourg**

For Qualified Investors Only. This document and the information contained herein are subject to completion and/or amendment, which may be material, without notice. Under no circumstances shall this document constitute an offer of, or an invitation to acquire, or the solicitation of an offer to purchase or subscribe for any of the ETC, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful. This document has not been approved by the competent authority in any member state of the European Economic Area.

It is an advertisement and does not comprise a prospectus for the purposes of the EU Directive 2003/71/EC. The definitive terms of the transactions described herein will be described in a final prospectus. Investors should not subscribe for any securities referred to herein except on the basis of information contained in the final form of the prospectus. When available, the final prospectus will be made available to the public in accordance with the EU Directive 2003/71/EC and/or the Prospectus (Directive 2003/71/EC) and investors may obtain copy from the website [www.iShares.com](http://www.iShares.com) or iShares – BlackRock, Rembrandt Toren, 17e verdieping, Amstelplein 1, 1096 HA Amsterdam.

This document may not be communicated or distributed to persons other than persons to whom it may be communicated or distributed lawfully without any further action on the part of any person and in accordance with all application securities laws

As a matter of courtesy press release and materials should be sent to the CSSF before publication via e-mail at [prospectus.approval@cssf.lu](mailto:prospectus.approval@cssf.lu).

## **For investors in Norway**

## **For investors in Spain**

The offer of [Securities ] has been registered with the Comisión Nacional del Mercado de Valores (the “CNMV”) as a public offer pursuant to Article 30 bis of Law 24/1988 on the Securities Market, as amended. Accordingly the offer shall be addressed only, and offer materials will be solely made available, to those investors to which the offer is addressed according to the terms of the prospectus registered with the CNMV Prospective investors may request and review a copy of the prospectus registered with the CNMV at the registered offices of the issuer/offeror and the CNMV

## **For investors in Sweden**

The Base Prospectus (including any Supplement) as well as the annual and semi-annual reports for the Issuer (“Securities Documentation”) have been published electronically and are available free of charge on the website [www.ishares.com](http://www.ishares.com). A paper copy is available free of charge from BlackRock Investment Management LTD, Norrlandsgatan 16, 111 43 Stockholm, Sweden. The Issuer has requested the Central Bank to notify its approval of the Base Prospectus to the competent authority in Sweden by providing the competent authority, inter alia, with a certificate of approval attesting that this Base Prospectus has been drawn up in accordance with the Prospectus Directive. Any decision to invest in the ETC securities must be based solely on the information contained in the Securities Documentation. Investors should read the risks in the Base Prospectus. Any offer or sale, directly or indirectly, any of the Securities to the public in Sweden must be in compliance with all applicable provisions of the laws of Sweden and especially in compliance with the Swedish Securities Market Act as supplemented and amended from time to time.

The tax treatment depends on the individual circumstances of each investor and may be subject to change in the future. You should obtain specific professional tax advice before making any investment decision.

## **For investors in the Netherlands**

Under the Financial Markets Supervision Act, the person that offers units does not require a licence with respect to such offering and is not supervised by the Netherlands Authority for the Financial Markets with respect thereto. Copies of all documents (the main/umbrella Prospectus, the Supplement(s), the latest and any previous annual and semi-annual reports of the Company and the Memorandum and Articles of Association of the Company) will be available in the Netherlands, free of charge, from the offices of the representative in the Netherlands, BlackRock Investment Management (UK) Limited, Rembrandt Toren, 17th floor, Amstelplein 1, 1096 HA Amsterdam, Netherlands or by calling the Dutch representative’s information request line on 0800 0233 466 and the iShares website [www.ishares.nl](http://www.ishares.nl). Any decision to invest should be based on the information contained in the Prospectus and the latest half-yearly report and unaudited accounts and/or annual report and audited accounts. Investors should read the issuer specific risks in the Company’s Prospectus.

## **For investors in the UK**

The Central Bank of Ireland has notified the Financial Conduct Authority (FCA) of its approval of the base prospectus. The prospectus and additional information relating to the ETCs, including annual reports, are available on the iShares website at [www.ishares.com](http://www.ishares.com). Most of the protections provided by the UK regulatory system do not apply to the operation of the Company, and compensation will not be available under the UK Financial Services and Markets Act 2000.

**BLACKROCK®**

EII0418E-476099-1516395

## 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/securities are not authorised or registered for distribution and where no prospectus has been filed with any securities commission or regulatory authority. The companies/securities may not be acquired or owned by, or acquired with the assets of, an ERISA Plan.

## Risk Warnings

Investment in the ETCs mentioned in this document may not be suitable for all investors and involve a significant degree of risk. Investors should read carefully and ensure they understand the Risk Factors in the Base Prospectus and Key Information Document (KID). Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. The price of the investments may go up or down and the investor may not get back the amount invested. Your income is not fixed and may fluctuate. The value of investments involving exposure to foreign currencies can be affected by exchange rate movements. The securities are priced in US Dollars and the value of the investment in other currencies will be affected by exchange rate movements. We remind you that the levels and bases of, and reliefs from, taxation can change.

The securities issued by iShares Physical Metals plc are limited recourse obligations which are payable solely out of the underlying secured property. If the secured property is insufficient any outstanding claims will remain unpaid.

Precious metal prices are generally more volatile than most other asset classes, making investments riskier and more complex than other investments and value, and secondary market price, of the ETC securities may demonstrate similar volatility. Investors will be exposed to the same risks as those generally associated with a direct investment in precious metals, including disruptions in supply and demand affecting their liquidity, natural disasters and localised political or economic situations in their countries of production.

**BlackRock has not considered the suitability of this investment against your individual needs and risk tolerance.** Unless indicated, the information displayed only provides summary information. To ensure you understand whether our product is suitable, please read the Prospectus and Key Information Document (KID) which are available on the relevant product pages at [www.ishares.com](http://www.ishares.com).

In respect of the products mentioned 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 securities described within. This document may not be distributed without authorisation from BlackRock Advisors (UK) Limited.

## Fund Disclaimers: iShares Physical Gold ETC

**Gold Risk:** The value of gold may be subject to substantial fluctuations. Factors such as supply and demand, localised economic, political or environmental events, transportation, customs and fiscal restrictions may impact the value of gold.

**Liquidity Risk:** Lower liquidity means there are insufficient buyers or sellers to allow the ETC to sell or buy investments readily.

**Precious Metal Linked Securities Risk:** The value of the ETC will be affected by movements in the price of the precious metal to which it is linked. The price of a precious metal can go down as well as up and the performance of a precious metal in any future period may not mirror its past performance. An investment in the ETC linked to a metal is not the same as investing directly and physically holding the relevant metal and there are risks attached.

Metal markets may suffer from market disruption or volatility caused by shortages of physical metals. Such events could result in sudden increases in metal prices for a short period ("price spikes"). Changes in supply and demand for investment products offering investors an exposure to precious metals will also directly impact on the supply and demand in the market for the underlying precious metals. This may increase the volatility in the price and supply of the relevant precious metals.

The market price of each ETC will be affected by the value and volatility of the metal referenced by the relevant ETC, the value and volatility of metals in general and a number of other factors. Investors should be aware that the secondary market price of the ETC can go down as well as up throughout the life of the ETC.

© 2018 BlackRock, Inc. All Rights reserved. BLACKROCK, BLACKROCK SOLUTIONS, iSHARES, BUILD ON BLACKROCK, SO WHAT DO I DO WITH MY MONEY and the stylized i logo are registered and unregistered trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.