

may also invest up to 10% of its assets in bonds not included in its Underlying Index, but which the Advisor believes will help the Fund track its Underlying Index, as well as in certain futures, options and swap contracts, cash and cash equivalents. For example, these Funds may invest in securities not included in the relevant Underlying Index in order to reflect prospective changes in the relevant Underlying Index (such as future corporate actions and index reconstitutions, additions and deletions). The iShares GS \$ InvesTop™ Corporate Bond Fund generally will invest at least 90% of its assets in Component Securities of its respective Underlying Index. However, the iShares GS \$ InvesTop™ Corporate Bond Fund may at times invest up to 20% of its assets in certain futures, options and swap contracts, cash and cash equivalents as well as in bonds not included in its Underlying Index, but which the Advisor believes will help the Fund track its Underlying Index and which are either (i) included in the broader index upon which such Underlying Index is based (*i.e.*, the Lehman Credit Index for the Lehman Credit VLI Index or the Goldman Sachs Investment Grade Index for the Goldman Sachs InvesTop Index); or (ii) new issues entering or about to enter the Underlying Index or the broader index upon which such Underlying Index is based.

## B. Issuance of Creation Unit Aggregations

### 1. In General

Shares of each Fund (the “iShares”) will be issued on a continuous offering basis in groups of 50,000 or more. These “groups” of shares are called “Creation Unit Aggregations.” The Funds will issue and redeem iShares only in Creation Unit Aggregations.<sup>10</sup> As with other open-end investment companies, iShares will be issued at the net asset value (“NAV”) per share next determined after an order in proper form is received.

The NAV per share of each Fund is determined at the close of the regular trading session based upon the methodology employed by the specific Fund. The Trust sells Creation Unit Aggregations of each Fund only on business days at the next determined NAV of each Fund. Each Fund will issue Creation Unit Aggregations in exchange for the in-kind deposit of portfolio securities designated by the

Advisor to correspond generally to the price and yield performance of the Fund’s Underlying Index (the “Deposit Securities”). Purchasers will generally be required to deposit a specified cash payment in the manner more fully described in the Application. Creation Unit Aggregations will be redeemed by each fund in exchange for portfolio securities of the Fund (“Fund Securities”) and a specified cash payment in the manner more fully described herein. Fund Securities received on redemption may not be identical to Deposit Securities deposited in connection with creations of Creation Unit Aggregations for the same day.

The Distributor will act on an agency basis and will be the Trust’s principal underwriter for the iShares in Creation Unit Aggregations of each Fund. All orders to purchase iShares in Creation Unit Aggregations must be placed with the Distributor by or through an authorized participant (“Authorized Participant”). Authorized Participants, which are required to be Depository Trust Company (“DTC”) participants, must enter into a participant agreement with the Distributor. The Distributor will transmit such orders to the applicable Fund and furnish to those placing orders confirmation that the orders have been accepted. The Distributor may reject any order that is not submitted in proper form. The Distributor will be responsible for delivering the prospectus to those persons creating iShares in Creation Unit Aggregations and for maintaining records of both the orders placed with it and the confirmations of acceptance furnished by it. In addition, the Distributor will maintain a record of the instructions given to the Trust to implement the delivery of iShares.

### 2. In-Kind Deposit of Portfolio Securities

Payment for Creation Unit Aggregations placed through the Distributor will be made by the purchasers generally by an in-kind deposit with the Fund of the Deposit Securities together with an amount of cash (the “Balancing Amount”) specified by the Advisor in the manner described below. The Balancing Amount is an amount equal to the differences between (1) the NAV (per Creation Unit Aggregation) of the Fund and (2) the total aggregate market value (per Creation Unit Aggregation) of the Deposit Securities (such value referred to herein as the “Deposit Amount”). The Balancing Amount serves the function of compensating for differences, if any, between the NAV per Creation Unit Aggregation and that of the Deposit

Amount. The deposit of the requisite Deposit Securities and the Balancing Amount are collectively referred to herein as a “Portfolio Deposit.”

The Advisor will make available to the market through the National Securities Clearing Corporation (the “NSCC”) on each Business Day, prior to the Core Trading Session<sup>11</sup> trading on ArcaEx (currently 9:30 a.m. Eastern Time), the list of the names and the required number of shares of each Deposit Security included in the current Portfolio Deposit (based on the information at the end of the previous Business Day) for the relevant Fund. The Portfolio Deposit will be applicable to a Fund (subject to any adjustments to the Balancing Amount, as described below) in order to effect purchases of Creation Unit Aggregations of the Fund until such time as the next-announced Portfolio Deposit composition is made available.

The identity and number of shares of the Deposit Securities required for the Portfolio Deposit for each Fund will change from time to time. The composition of the Deposit Securities may change in response to adjustments to the weighting of composition of the Component Securities in the relevant Underlying Index. These adjustments will reflect changes, known to the Advisor to be in effect by the time of determination of the Deposit Securities, in the composition of the Underlying Index being tracked by the relevant Fund, or resulting from rebalance or additions or deletions to the relevant Underlying Index. In addition, the Trust reserves the right with respect to each Fund to permit or require the substitution of an amount of cash (*i.e.*, a “cash in lieu” amount) to be added to the Balancing Amount to replace any Deposit Security: (1) That may be unavailable or not available in sufficient quantity for delivery to the Trust upon the purchase of iShares in Creation Unit Aggregations, or (2) that may not be eligible for trading by an Authorized Participant or the investor on whose behalf the Authorized Participant is acting.

## C. Availability of Information Regarding iShares and Underlying Indices

### 1. In General

On each Business Day, the list of names and amount of each treasury security, government security or corporate bond constituting the current

<sup>10</sup> Each Creation Unit Aggregation will consist of 50,000 or more iShares and the estimated initial value per Creation Unit Aggregation will be approximately \$5 million.

<sup>11</sup> The Exchange operates three trading sessions each day it is open. The three trading sessions are (1) the Opening Session; (2) the Core Trading Session; and (3) the Late Trading Session. See PCXE Rule 7.34(a).