

iSHARES ESG AUSTRALIAN BOND INDEX FUND

iShares®
by BLACKROCK®

FUND UPDATE

31 January 2022

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
iShares ESG Australian Bond Index Fund (Gross of Fees) (Class E)	-0.96	1.12	-0.96	-3.43	-	-	2.28
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-0.97	1.14	-0.97	-3.37	-	-	2.27
Outperformance (Gross of Fees)	0.00	-0.02	0.00	-0.05	-	-	0.02
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	-0.98	1.07	-0.98	-3.60	-	-	2.08
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-0.97	1.14	-0.97	-3.37	-	-	2.27
Outperformance (Net of Fees)	-0.01	-0.08	-0.01	-0.22	-	-	-0.18

Inception date: 1/02/2019

Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised. Performance is calculated in Australian dollars and assumes reinvestment of distributions. Gross performance is calculated gross of ongoing fees and expenses. Net performance is calculated on exit-to-exit price basis, e.g. net of ongoing fees and expenses. Gross returns are provided for products offered to wholesale clients only who may be subject to differential fees. Please refer to the Fund's product disclosure statement for more information.

Performance Summary

Market Review

The Bloomberg Barclays MSCI SRI/ESG-Weighted A\$100M Index (the "Index") returned 0.09% in January. Supranational Sovereigns (-0.44%) were the top performing sub-component followed by Credit (-0.54%), Treasuries (-1.03%), and Semi-Govt (-1.29%)

ESG research by MSCI saw them upgrade the African Development Bank (AfDB) to 'AA' from 'A'. The upgrade has been driven by having a robust ethical framework and strong financial inclusion initiatives. Methodology enhancements to the Corporate Behavior Theme resulted in a greater emphasis on business ethics practices and on exposure to risks related to corruption. MSCI note, AfDB's robust business ethics framework, which is a key contributor to the upgrade. It promotes ethical conduct among employees through training, and has a whistleblower protection scheme as well as policies against corruption. Improvements in the bank's overall ESG performance relative to peers further supports the upgrade.

Australian 2-year bond yields rose 0.29% over the month to 0.88%, while 10-year yields increased 0.23% to 1.90%.

Domestic data was strong over the month with 64,800 new jobs being added to the economy. This was 4,800 more than expected and helped the unemployment rate lower to 4.2%, down 0.3%. CPI for Q4 delivered a meaningful upside surprise, rising by 1.3% for the quarter, which was 0.3% above market expectations and took CPI y/y to 3.5%. This brought the annual trimmed mean core inflation level, which is the RBA's preferred measure of inflation, up to 2.6%, its highest level since 2014 and into the upper half of the RBA's 2-3% band. November Retail sales were 4% higher than expected, growing by 7.3%. December private sector credit grew by more than expected, up 0.8% and this saw y/y growth increased to 3%. On the downside, the NAB business survey saw conditions fall 4 points to 8, while confidence crashed 24 points to -12. Consumer confidence also fell, slipping 2% to 102.2.

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In the U.S., 2-year treasury yields were 0.45% higher at 1.18% while the 10-year yield rose 0.27% to 1.78%.

The FOMC left the Fed Funds Rate unchanged at a target range of 0.0% – 0.25%, as expected. Chairman Jerome Powell and the FOMC see conditions in place to begin raising rates as he stressed that economic conditions now are much stronger than in prior cycles, particularly given the record number of open jobs. In addition, the Fed's balance-sheet tapering is expected to end in March, meaning the Fed will no longer be providing stimulus or liquidity via balance-sheet expansion. Despite Powell not specifying a target number of hikes this year, he did note that "there's quite a bit of room to raise interest rates without threatening the labor market." Markets have now priced in upwards of five rate hikes for 2022.

U.S. Economic data was decent. CPI headlined the month coming in at 0.5% m/m, sending CPI y/y to 7%, the greatest increase over a 12-month period since mid-1982. Non-farm payrolls saw 199,000 new jobs added, this was well below the expected 450,000, yet still helped the unemployment rate lower by 0.3%, taking it to 3.9%. December new home sales were positive, increasing by 811,000 annualised, while existing home sales saw 6.2m homes sold over the month. November Factory orders rose 1.6%, up from 1% the prior month. Wholesale inventories were 0.2% higher, increasing by 1.4%. December retail sales saw a decline of -1.9% and consumer confidence slipped 2pts to 113.8.

Credit spreads came in 3bps on average over the month. All sectors recorded negative returns as yields moved wider. Financials were the best performing sector, returning -0.48%, followed by industrials (-0.64%) with utilities (-0.68%) lagging slightly. YTD total A\$ issuance across financials reached A\$11.8bn, which is A\$10.5bn more than at the same period last year, of that, major bank issuance made up A\$6.3bnbn. YTD issuances for Non-Financial is A\$40m.

Outlook

The economic outlook for 2022 remains very positive despite the challenges of the Omicron variant which remains ever present in many communities. The time to 'live with Covid' is very much upon Australia with all states except Western Australia open for business and the international border reopening in late February. However, global supply-side constraints still linger, and we expect these won't be resolved until late 2022. This means inflation pressures are likely to increase and we are seeing sharply rising inflation in many developed and emerging market economies. The economy is rapidly heading towards full employment at around 4% and we expect the unemployment rate to continue to fall. For the RBA the main game remains inflation and in particular seeing sustained wages growth above 3%. There is still some wood to chop on that front, but we expect to see the conditions in place for the RBA to raise the cash rate around August. The market is taking a very hawkish stance having already priced in five hikes by year-end. That feels a little aggressive to us and we'd expect them to take a more measured approach in order to lock in the growth and employment gains achieved to date.

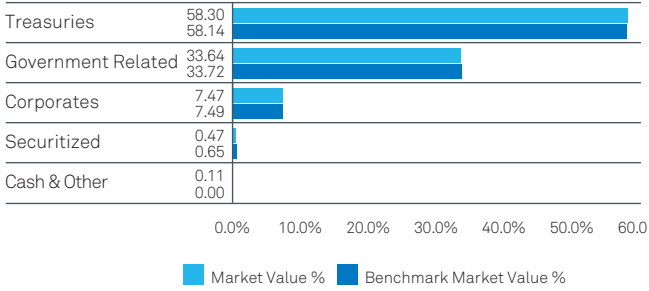
Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	58.3
QUEENSLAND TREASURY CORPORATION	7.8
NEW SOUTH WALES TREASURY CORPORATION	3.8
TREASURY CORPORATION OF VICTORIA	3.3
WESTERN AUSTRALIAN TREASURY CORPORATION	3.1
LANDWIRTSCHAFTLICHE RENTENBANK	1.8
INTERNATIONAL FINANCE CORP	1.6
KFW	1.3
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.2
BNG BANK NV	1.2

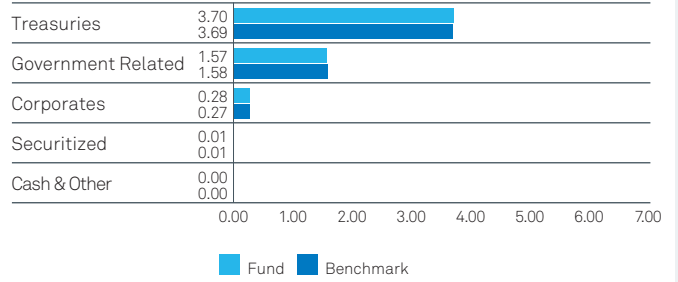
Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.56	5.55	0.00
Duration x spread (%)	0.95	1.02	-0.07
Yield (%)	1.63	1.64	-0.02
Average Coupon (%)	2.78	2.82	-0.04
Average Maturity (Years)	6.30	6.29	0.01
Green Bonds (%)	3.74	1.60	2.15
ESG Score	7.36	7.33	0.03

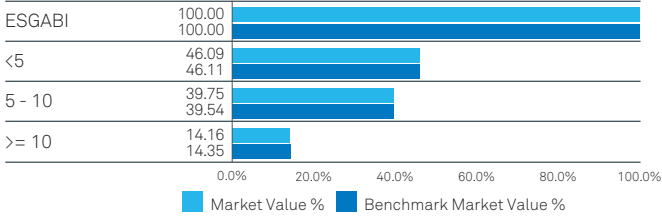
Sector Exposure



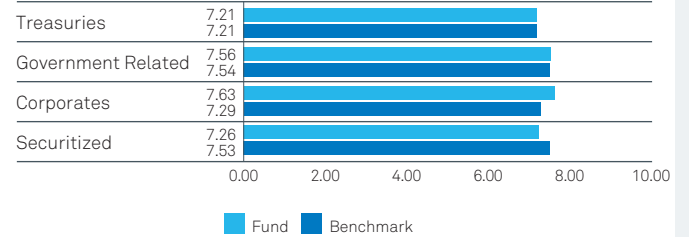
Contribution to Modified Duration



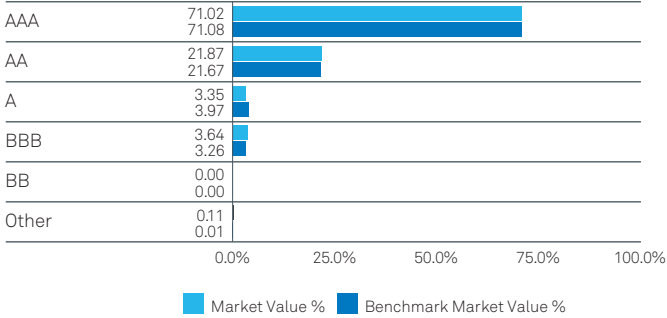
Maturity Exposure



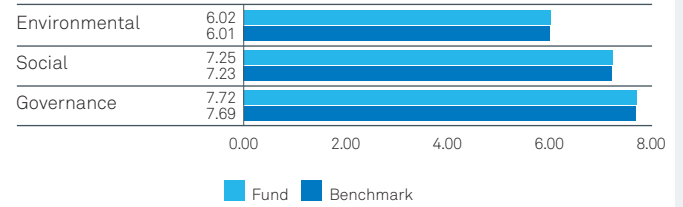
ESG Sector Score



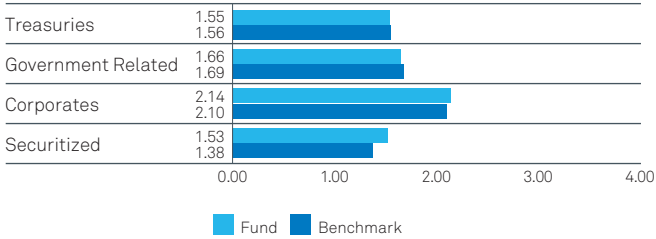
Quality Exposure



ESG Score Breakdown



Yield



Top 10 Issuers held by ESG score

Issuer	ESG Score
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	10.0
INTERNATIONAL FINANCE CORP	10.0
DEXUS FINANCE PTY LTD	10.0
INTER-AMERICAN DEVELOPMENT BANK	10.0
MIRVAC GROUP FINANCE LTD	10.0
NORDIC INVESTMENT BANK	10.0
STOCKLAND TRUST	10.0
TRANSURBAN QUEENSLAND FINANCE PTY LTD	10.0
EUROFIMA	9.8
KFW	9.3

About the Fund

Investment Objective

The Fund aims to match the performance of a customised Bloomberg Barclays MSCI Australian Socially Responsible (SRI) and ESG-weighted Index before fees.

Fund Strategy

The Fund excludes non-government securities associated with fossil fuels, alcohol, tobacco, gambling, adult entertainment, genetically modified organisms, military weapons, civilian firearms, nuclear power. The definitions for exclusions are based on the Bloomberg Barclays Index exclusion methodology.

The strategy aims to track the benchmark by closely matching the distribution of the benchmark's major risk and return factors. This is done using a methodology commonly referred to as stratified sampling, where the benchmark and the investment portfolio are broken down into "cells" of securities with similar risk and return factors. The major risk and return factors are interest-rate risk, sector risk and specific (individual security) risk. We select securities that match the overall characteristics of each cell in amounts consistent with the index weighting and modified duration of the cells they represent. By matching at the cell level, the overall risk and return characteristics of the portfolio will closely match those of the benchmark.

Should be considered by investors who ...

- ▶ Seek a broad exposure to Australian bonds.
- ▶ Seek a fund that screens for improved ESG outcomes.
- ▶ Seek a fund that uses a stratified-sampling approach so returns match as closely as possible those of the benchmark before fees.
- ▶ Have a long term investment horizon.

Fund Details

iShares ESG Australian Bond Index Fund (Class E)

APIR	BLK9562AU
Fund size	518 mil
Buy/Sell Spread	0.05%/0.05%
Tracking Error (3 years p.a.)	-

iShares ESG Australian Bond Index Fund (Class D)

APIR	BLK2127AU
Management Fee (Class D Units)	0.20% p.a.

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