

iSHARES ESG AUSTRALIAN BOND INDEX FUND

iShares®
by BLACKROCK®

FUND UPDATE

31 October 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)	0.89	-2.94	-8.95	-7.04	-2.85	-	-0.44
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	0.89	-2.91	-8.94	-7.00	-2.85	-	-0.45
Outperformance (Gross of Fees)	-0.01	-0.03	-0.01	-0.04	0.00	-	0.01
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	0.87	-2.99	-9.11	-7.23	-3.04	-	-0.64
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	0.89	-2.91	-8.94	-7.00	-2.85	-	-0.45
Outperformance (Net of Fees)	-0.03	-0.08	-0.17	-0.23	-0.19	-	-0.19

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 0.89% in October. Treasury was the best performing sub-component (1.21%), followed up Semi-Government (0.63%), Supranational Sovereigns (0.55%) and Credit (0.37%).

ESG research by MSCI saw a controversy case downgrade of Apple Inc (AAPL) from severe to very severe. The case headline was "China: Allegations of forced labor in supply chain". MSCI based the downgrade on the extensive scale of impact and serious nature of the alleged harm, specifically affecting Uyghurs and other ethnic minorities regarded as a vulnerable demographic. The accusations were linked to the company's indirect role in sourcing goods from suppliers allegedly employing Uyghurs from Chinese government sponsored 'Vocational Education and Training Centers' (VETCs). At the time of the assessment, Apple Inc. did not meet any of the criteria for considering the case partially or fully concluded.

Australian 2-year bond yields decreased 0.08% over the month to 3.23%, and 10-year yields fell 0.13% to 3.76%.

The RBA surprised the market in October by stepping down the pace of tightening as they increased cash rate by 'only' 0.25% to 2.60%. There was a clear acknowledgement by the board that the cash rate "has been increased substantially in a short period of time". The RBA also signalled that it "expects to increase interest rates further over the period ahead" and "the sizes and timing of future interest rate increases will be guided by the incoming data". Now that the RBA has returned to 0.25% rate hikes, the bar for the bank to switch back to 0.50% hikes will be very high from here.

In October, Australian economic data continued to indicate concerns over persistent inflation and a tight labour market. Q3 Headline CPI came in at 1.8% over the quarter (7.3% y/y). This was 0.2% higher than expected but in-line with the RBA's forecasts. The labour market

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stuttered over the month with only 900 new jobs added, which was well below the expected +25,000 increase. Yet, the employment market remains tight and it's likely to stay that way into year end with as the unemployment rate remained at 3.5%. The participation rate also remained unchanged at 66.6%. The NAB business survey saw mixed results with business conditions remaining strong despite falling 3 points to +22. Business confidence has been declining and fell another 5 points to 0. Consumer confidence crashed, falling 6.9% to 78, levels not seen since the GFC. Building approvals surged by 28.1%, rebounding from last month's -17.2% fall. CBA household spending index fell 0.5% in September to 114.9 yet remains solid given the increase of 14.1% over the 12-month period.

In the U.S., 2-year treasury yields were 0.20% higher at 4.48% while the 10-year yield increased 0.22% to 4.05%.

The release of the September FOMC meeting minutes reinforced the overall hawkish tone that the Fed will maintain a restrictive policy setting to get inflation under control. The Fed anticipate tighter financial conditions to combat persistently high levels of employment and inflation. Chair Powell has acknowledged that "the probability is rising that the rapid pace of tightening will lead to a harder landing than necessary to achieve those goals". While it is difficult to measure the "long and variable lags" of monetary policy working through the economy, they are "reasonably confident that the magnitude of tightening...will be sufficient to motivate the economic rebalancing necessary to achieve these goals". The challenge Chair Powell faces is that inflationary momentum remains strong and the labour market remains tight, so while he may allude to the speed of future rate hikes, he will likely leave the door open to going further if inflation doesn't subside.

US economic data was mixed in October, and concerns over persistent inflation and a tight labour market remain prevalent. Non-farm payrolls saw 263,000 new jobs created (8,000 more than expected) and the unemployment rate fell 0.2% to 3.5%. US headline CPI rose by 0.4%, which was double the expected 0.2% and saw the CPI y/y reach 8.2%, its highest level in four decades. GDP for Q3 rebounded at 2.6% annualised, up 3.2% from Q2. However, there are signs of a tapering in activity. Consumer confidence fell 5.1% to 102.5. Durable goods orders fell as expected by -0.2%, while factory orders were flat over the month. Retail sales were level over the month. Housing supply continues to be slowing with existing home sales down 1.5% (4.71m annualised), new home sales fell 10.9% (down 28% since December) and housing starts fell 8.1% to 1.44m annualised.

Credit spreads widened 21bps on average over the month, yet all sectors recorded positive returns with yields falling. Utilities were the best performing sector, returning 0.51%, followed by industrials (0.42%) with financials (0.30%) lagging. YTD total issuance across financials reached A\$90.5bn, which is A\$15.2bn more than at the same period last year, of that, major bank issuance made up A\$50bn. YTD issuances for non-Financial is A\$4.82bn.

Outlook

Above-target inflation and a tight labour market remain the key themes and concerns for policy makers and markets as they digest the realities of inflation persisting at more elevated levels and for longer. While the RBA has pivoted away from the 'outsized' 50bps hikes, they are not yet finished raising rates with the Bank lifting the cash rate by another 25bps at their November meeting. Governor Lowe also re-affirmed in his post-meeting statement that "The board expects to increase interest rates further over the period ahead." Given the persistency of inflation, the RBA have also revised up their inflation target, expecting it to peak at 8% (previously, 7.8%) by year end before gradually moderating lower over the next two years. We expect wage growth to pick up by the end of this year and stay high through 2023, we also anticipate headline inflation will remain high through Q4 and therefore further hikes throughout 2023 are effectively inevitable. Markets are currently pricing in a terminal rate of 4% towards the end of 2023, leaving another 115bps of rate rises to be made over the next 9-12 months.

Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	53.9
QUEENSLAND TREASURY CORPORATION	7.1
NEW SOUTH WALES TREASURY CORPORATION	6.6
TREASURY CORPORATION OF VICTORIA	6.3
WESTERN AUSTRALIAN TREASURY CORPORATION	2.5
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.7
LANDWIRTSCHAFTLICHE RENTENBANK	1.6
INTERNATIONAL FINANCE CORP	1.5
BNG BANK NV	1.1
EUROPEAN INVESTMENT BANK	1.0

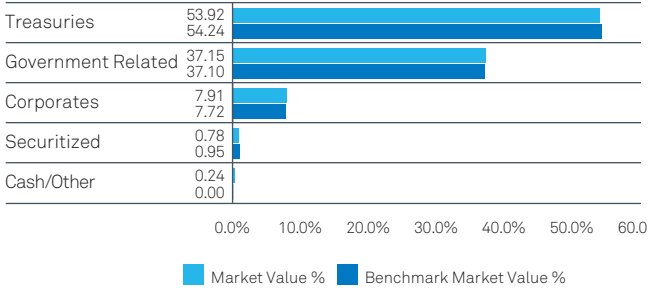
Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.11	5.11	0.00
Duration x spread	1.96	2.07	-0.12
Yield	3.89	3.92	-0.03
Average Coupon (%)	2.66	2.71	-0.04
Average Maturity (Years)	5.91	5.93	-0.02
Green Bonds	3.62	1.62	2.00
ESG Score	7.41	7.37	0.04

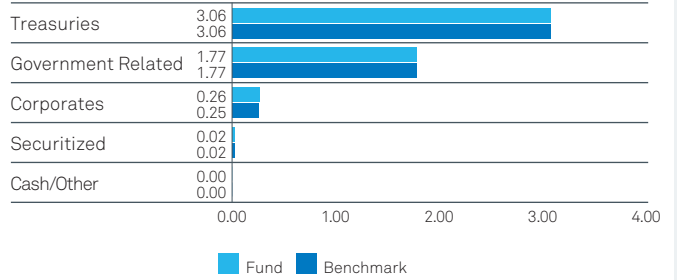
Top 10 Issuers held by ESG score

Issuer	ESG Score
CNH INDUSTRIAL CAPITAL AUSTRALIA PTY LTD	10.0
DEXUS FINANCE PTY LTD	10.0
GPT WHOLESALE SHOPPING CENTRE FUND NO 1	10.0
INTER-AMERICAN DEVELOPMENT BANK	10.0
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	10.0
INTERNATIONAL FINANCE CORP	10.0
MIRVAC GROUP FINANCE LTD	10.0
NORDIC INVESTMENT BANK	10.0
STOCKLAND TRUST	10.0
TRANSURBAN QUEENSLAND FINANCE PTY LTD	10.0

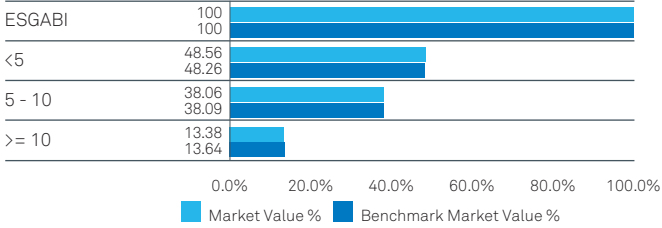
Sector Exposure



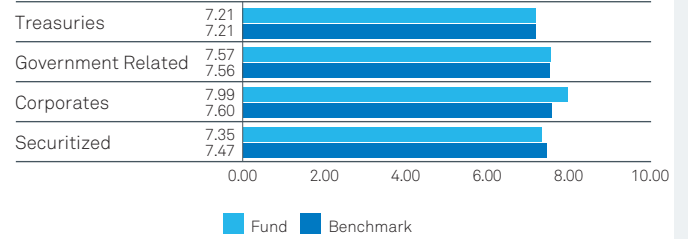
Contribution to Modified Duration



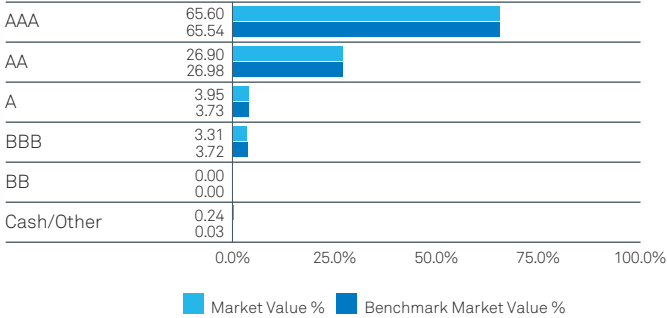
Maturity Exposure



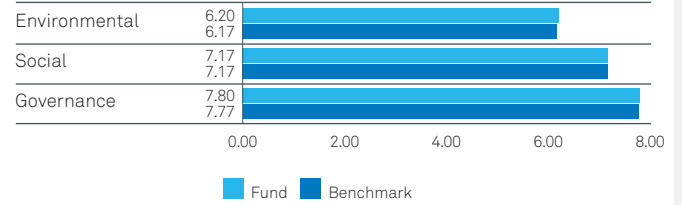
ESG Sector Score



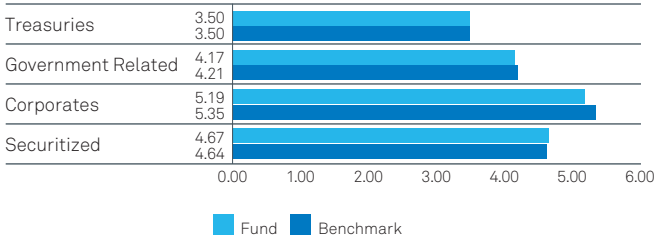
Quality Exposure



ESG Score Breakdown



Yield



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	506 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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