

iSHARES ESG AUSTRALIAN BOND INDEX FUND



FUND UPDATE

30 November 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)	1.52	1.05	-7.57	-7.50	-2.64	-	-0.03
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	1.53	1.06	-7.55	-7.47	-2.63	-	-0.04
Outperformance (Gross of Fees)	0.00	-0.02	-0.01	-0.03	-0.01	-	0.01
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	1.51	1.00	-7.74	-7.68	-2.83	-	-0.23
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	1.53	1.06	-7.55	-7.47	-2.63	-	-0.04
Outperformance (Net of Fees)	-0.02	-0.07	-0.19	-0.21	-0.20	-	-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 1.53% in November. Treasury was the best performing sub-component (0.75%), followed up Semi-Government (0.48%), Credit (0.15%) and Supranational Sovereigns (0.13%).

ESG research by MSCI saw an ESG Rating downgrade of Apple Inc (AAPL) from A to BBB. Apple's reliance on outsourced hardware manufacturing exposes it to supply chain issues that may disrupt production or create reputational risks. Since 2020, Apple has been criticized for sourcing goods from multiple suppliers allegedly involved in human rights violations related to employing Uyghurs and other ethnic minorities in China. The recent reassessment of these controversies as a result of the methodology enhancement related to vulnerable demographics drove the downgrade.

Australian 2-year bond yields decreased 0.12% over the month to 3.11%, and 10-year yields fell 0.23% to 3.53%.

The RBA hiked the cash rate by 25bps again in November, taking the OCR to 2.85%. This was in line with market expectations. The RBA has now hiked the OCR by 275bps since May. In the Statement of Monetary Policy, inflation was upwardly revised to peak at 8% in Q4, and GDP was revised downwards. With inflation still considered "too high", it is likely that interest rates will remain elevated, and the RBA still has more to do.

Australian economic data was weaker in November; however, inflation remains significantly above policy target and the labour market is still tight. October CPI came in softer over the month, rising by only 0.2% m/m (6.9% y/y), and surprising the market which had expected a 0.8% increase. This has moderated sharply from a 0.6% lift in September. Retail sales values in October were weaker than expected, falling 0.2% m/m, marking the first monthly fall in 2022. Market sentiment dropped as business conditions fell 1 point to 22, while business

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confidence declined 5 points to 0. Consumer confidence decreased from 83.7 to 78. The labour market remains robust as employment data came in stronger than expected, with 32,200 new jobs created (more than double the 15,000 consensus). The unemployment rate fell 0.1% to 3.4%, while the participation rate lowered by 0.1% to 66.5%.

In the U.S., 2-year treasury yields decreased by 0.17% at 4.31% while the 10-year yield decreased 0.44% to 3.61%.

The FOMC raised rates by 75bps in November. This was the Fed's fourth consecutive 75bps rate hike, taking the fed funds rate from near zero to a target range of 3.75%-4.00% in around eight months. Powell solidified expectations for a slower pace of hikes to the federal funds target rate, although he emphasized that interest rates were likely to remain high for longer.

US economic data was mixed in November with non-farm payrolls adding 261,000 new jobs (63,000 more than expected), although the unemployment rate increased by 0.2% to 3.7%. Inflation is still above target and wage growth is strong. CPI slowed more than expected, rising 0.4%, vs. a forecast of 0.6% and to 6.3% y/y, which was also 0.2% lower than expected. The fall in CPI has seen some claim that we may have reached peak inflation, however it is still too early to draw this conclusion. Average hourly earnings rose by 0.6% for the month and now growing by a rate of 5.1% annualised. Retail sales came in 0.3% higher than expected at 1.3% m/m. Housing supply continues to be slowing with housing starts falling 4.1% to 1.34 million annualised, existing home sales were 5.9% lower at 4.4 million annualised and building permits declined by 2.4% to 1.53 million annualised. Consumer confidence fell by 2.3 points to 100.2.

Credit spreads narrowed 13bps on average over the month and all sectors recorded positive returns with yields falling. Industrials were the best performing sector, returning 1.45%, followed by utilities (1.41%) and financials (1.17%). YTD total issuance across financials reached A\$104.7bn, which is A\$63.6bn more than at the same period last year, of that, major bank issuance made up A\$60.2bn.

Outlook

The rate hikes from the RBA have come thick and fast in 2022 with another 0.25% delivered in early December taking the cash rate to 3.10% - its highest level since November 2012. This brought the RBA's cumulative hike since May to 300bps, which is the quickest tightening cycle since 1989. Despite this bond markets have been rallying (yields falling) in anticipation that inflation has started to peak, and the focus now changes to the outlook for growth. Or more likely, the lack of growth in 2023. Expectations are now that the US will find it difficult to avoid a hard economic landing with the Fed determined to bring inflation back to target. Locally, the RBA is still expecting inflation to rise from current levels and peak late in 2022 before trending lower. There is still a degree of uncertainty around how "sticky" inflation might prove to be, so with bond markets now priced to perfection there are clearly risks for some disappointment in H1'23. In terms of the RBA and the likely rate path ahead we expect their work is still not complete. Wages will be a key determinant in how inflation, and importantly inflation expectations, settle in 2023.

Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	53.4
QUEENSLAND TREASURY CORPORATION	7.0
NEW SOUTH WALES TREASURY CORPORATION	6.8
TREASURY CORPORATION OF VICTORIA	6.6
WESTERN AUSTRALIAN TREASURY CORPORATION	2.6
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.6
LANDWIRTSCHAFTLICHE RENTENBANK	1.5
INTERNATIONAL FINANCE CORP	1.5
BNG BANK NV	1.0
EUROPEAN INVESTMENT BANK	1.0

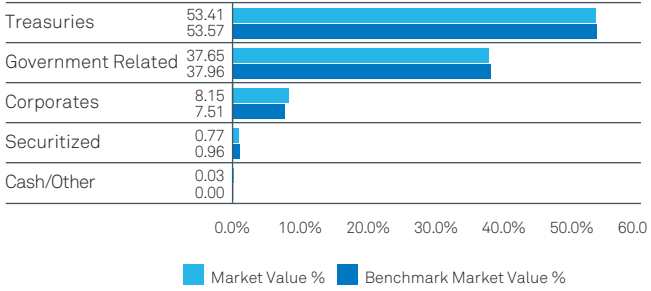
Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.26	5.27	0.00
Duration x spread	1.78	1.88	-0.11
Yield	3.70	3.73	-0.02
Average Coupon (%)	2.69	2.74	-0.04
Average Maturity (Years)	6.06	6.09	-0.02
Green Bonds	3.65	1.87	1.78
ESG Score	7.40	7.38	0.02

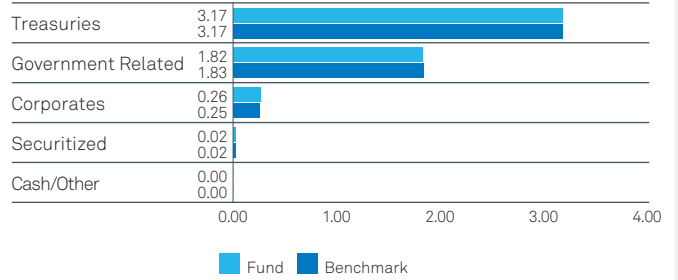
Top 10 Issuers held by ESG score

Issuer	ESG Score
CNH INDUSTRIAL CAPITAL AUSTRALIA PTY LTD	10.0
DEXUS FINANCE PTY LTD	10.0
GPT RE 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
MIRVAC GROUP FINANCE LTD	10.0
NORDIC INVESTMENT BANK	10.0
STOCKLAND TRUST	10.0
TRANSURBAN QUEENSLAND FINANCE PTY LTD	10.0

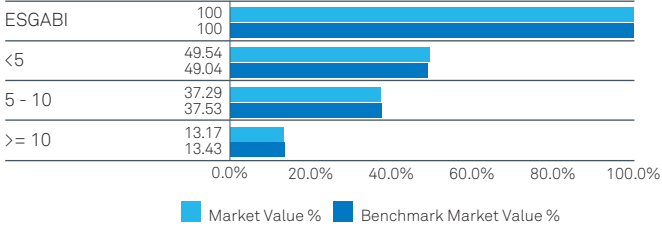
Sector Exposure



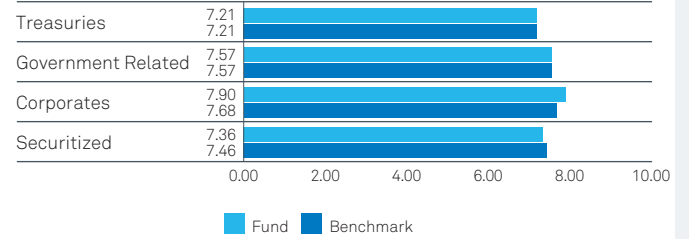
Contribution to Modified Duration



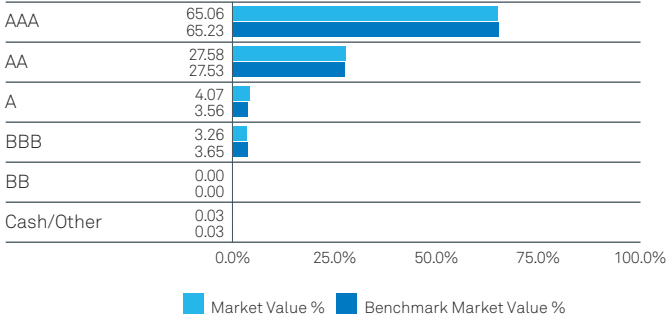
Maturity Exposure



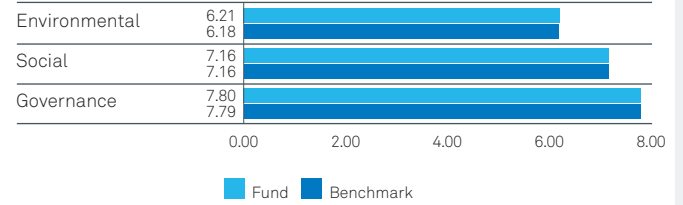
ESG Sector Score



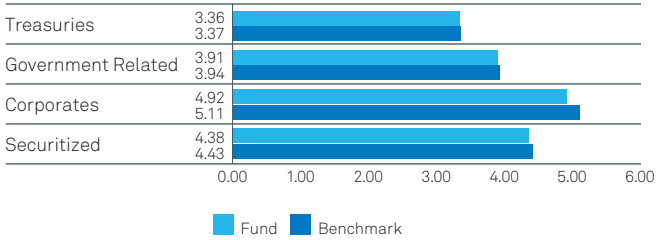
Quality Exposure



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	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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