

# iSHARES ESG AUSTRALIAN BOND INDEX FUND

**iShares**  
by BLACKROCK®

FUND UPDATE

31 December 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)	-2.00	0.38	-9.41	-9.41	-2.75	-	-0.55
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-2.01	0.38	-9.41	-9.41	-2.75	-	-0.56
Outperformance (Gross of Fees)	0.01	0.00	-0.01	-0.01	0.00	-	0.01
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	-2.01	0.33	-9.60	-9.60	-2.95	-	-0.75
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-2.01	0.38	-9.41	-9.41	-2.75	-	-0.56
Outperformance (Net of Fees)	-0.01	-0.05	-0.19	-0.19	-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 -2.01% in December. Credit was the best performing sub-component (-0.61%), followed up Supranational-Sovereigns (-0.65%), Semi-Governments (-2.35%) and Treasuries (-2.37%).

ESG research by MSCI saw an ESG Rating upgrade of Arountown SA (AT1) from BBB to A. This was due to a removal of the Revenue Recognition Key Metric from the MSCI Governance assessment methodology due to the company's relatively low accounting risk relative to global peers. Additionally, its board is no longer flagged for having overboarded executive directors, post the 2022 AGM.

Australian 2-year bond yields increased 0.29% over the month to 3.40%, and 10-year yields rose 0.52% to 4.05%.

The RBA hiked the cash rate by 25bps again in December, taking the OCR to 3.10%, in line with market forecasts. This marked the eighth consecutive month for rate hikes, and the RBA has now hiked the OCR by 300bps since May 2022. While some tentative signs of improvement on the inflation outlook were noted, the December Board Statement noted further action is still required to bring the current 6.9% inflation figure down to the target range. The December Board Minutes outlined that "a range of options for the cash rate could be considered at upcoming meetings in 2023", and that future policy would be guided by "the state of the economy and the inflation outlook".

Australian economic data remains strong over December but did provide some indications of a slowing in activity. The labour market remains tight as employment data came in stronger than expected with 64,000 new jobs created, this was more than triple the 19,400 market consensus. The unemployment rate remained stable at 3.4%, while the participation rate was unchanged at 66.7%. Real GDP rose 0.6% in Q3, this was just below market expectations (0.7% q/q). GDP y/y is now at 5.9%, which was 0.4% less than the expected. Businesses displayed

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mixed signals with the NAB business survey seeing conditions fall 2 points, yet remained elevated at +20, while confidence fell 4 points, entering negative territory at -4. Consumer confidence bounced back somewhat, increasing from 78% the previous month, to 80.3%. This was a significant lift from the lows seen in November, which was considered one of the weakest reads recorded outside of a recession. Retail sales for November rebounded, up +1.4%, vs. a forecast of +0.6%.

In the U.S., 2-year treasury yields increased by 0.12% at 4.43% while the 10-year yield rose 0.27% to 3.88%.

The FOMC raised rates by 50bps in December, downshifting from four successive +75bps hikes and taking the fed funds rate to a target range of 4.25-4.50%. The committee also upwardly revised the median projection for policy rates to reach 5.1% by the end of 2023 (previously at 4.6%). In his comments, Chair Powell was clear to point out that while recent inflation data has been encouraging, it is well above the Fed's 2.0% target. Fighting inflation remains a top priority and the Fed "still have some ways to go". Powel said that the size of the rate increase at the next FOMC meeting in February would depend on incoming data – leaving room to remain at 50bps or revert to a 25bp rise.

US economic data was mixed in December, with some data suggesting a tapering in activity. The labour market remains strong, with non-farm payrolls adding 263,000 new jobs (63,000 more than expected). The unemployment rate remained unchanged from the previous month at 3.7%. Although inflation appears to be tapering, it is well above target and wage growth remains strong. CPI slowed more than expected in December, rising 0.1%, vs. a forecast of 0.3% (7.1% y/y). Average hourly earnings rose by 0.6% for the month and is now growing by a rate of 5.1% annualised. Retail sales fell 0.2% in December (0.6% m/m), the largest fall in 11 months and below expectations for a 0.2% increase. Housing supply continues to be slowing with housing starts falling by a modest 0.5% to 1.427 million annualised, existing home sales were 7.7% lower at 4.09 million annualised and building permits declined sharply by 11.2% to 1.342 million annualised. Consumer sentiment was 2.3 points higher at 59.1.

Credit spreads narrowed 7bps on average over the month, although all sectors recorded negative returns with yields rising. Financials were the best performing sector, returning -0.46%, followed by utilities (-0.62%) and industrials (-0.74%). Over 2022, total issuance across financials reached A\$108.6bn, which is A\$65.3bn more than at the same period last year, of that, major bank issuance made up A\$61.9bn.

## Outlook

With 300bps of rate hikes delivered by the RBA in 2022, the bulk of the tightening is now behind us. The outlook for monetary policy in 2023 will chiefly be about finessing the peak in the cash rate, assessing how long it remains there, and importantly when the inevitable 'pivot' to easing starts. An assessment of the RBA at the present time suggests they have moved towards a 'slower but higher for longer' cash rate path. We expect the RBA to stick to its 25bp hike approach with the hurdle for returning to 50bp hikes very high in our view. We expect GDP growth to slow through 2023 with the major drag likely to be slower household consumption. With consumer prices more likely to be driven by service-side factors, we expect both headline and core inflation to remain elevated over 2023, as does the RBA. They expect headline CPI to hit 8% by year end and to still be slightly above the 2-3% target by the end of 2024. There is still a degree of uncertainty around how persistent inflation might prove to be and in terms of the RBA 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)	53.1
QUEENSLAND TREASURY CORPORATION	7.0
TREASURY CORPORATION OF VICTORIA	6.7
NEW SOUTH WALES TREASURY CORPORATION	6.7
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	1.2
KFW	1.0

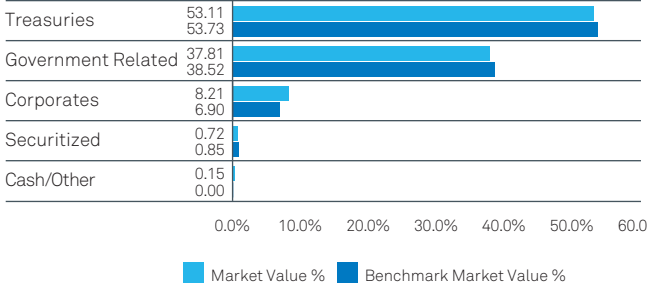
### Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.12	5.12	0.00
Duration x spread	1.74	1.81	-0.07
Yield	4.10	4.11	-0.01
Average Coupon (%)	2.67	2.72	-0.05
Average Maturity (Years)	5.93	5.95	-0.02
Green Bonds	3.85	1.85	2.00
ESG Score	7.40	7.38	0.02

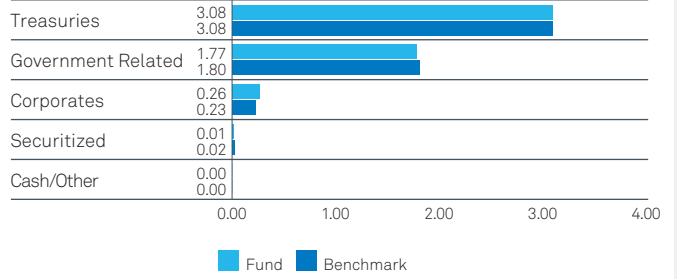
### Top 10 Issuers held by ESG score

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

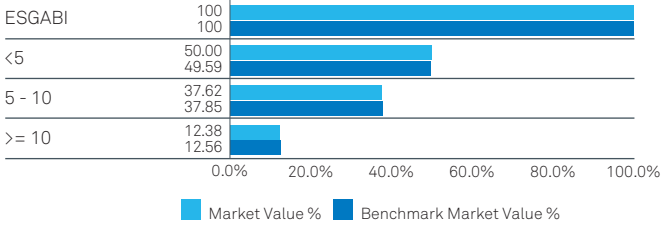
### Sector Exposure



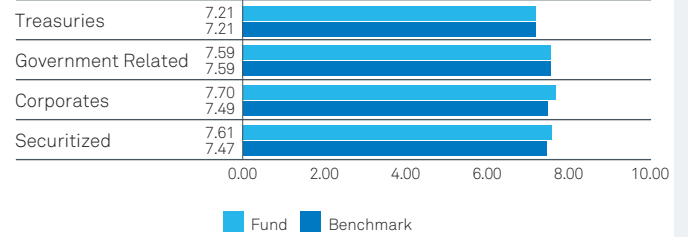
### Contribution to Modified Duration



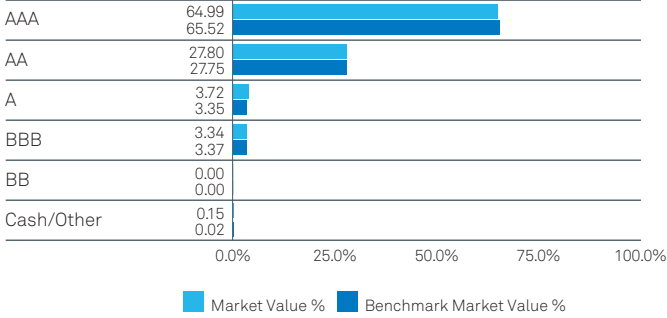
### Maturity Exposure



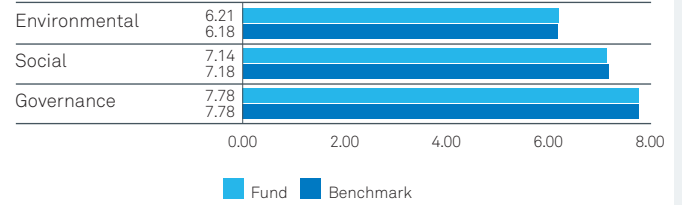
### ESG Sector Score



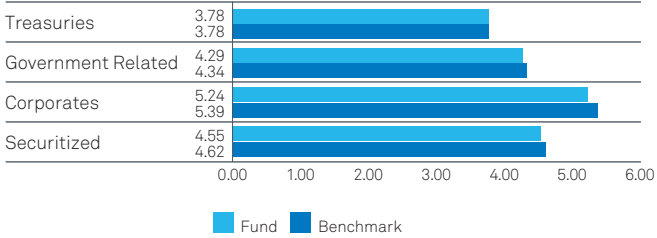
### Quality Exposure



### 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	455 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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