

iSHARES ESG AUSTRALIAN BOND INDEX FUND



FUND UPDATE

28 February 2023

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)	-1.30	-0.64	1.39	-6.16	-3.33	-	-0.19
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-1.30	-0.65	1.38	-6.16	-3.32	-	-0.20
Outperformance (Gross of Fees)	0.00	0.01	0.00	0.00	-0.01	-	0.01
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	-1.31	-0.69	1.35	-6.35	-3.52	-	-0.39
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-1.30	-0.65	1.38	-6.16	-3.32	-	-0.20
Outperformance (Net of Fees)	-0.01	-0.04	-0.03	-0.19	-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 MSCI Australia SRI/ESG-Weighted A\$100M Index (the "Index") returned -1.30% in February. Credit (-0.59%) was the best performing sub-component, followed by Supranational-Sovereigns (-0.85%), Semi-Governments (-1.19%) and Treasuries (-1.57%).

MSCI has downgraded Austrian Bank, OeKB, from 'AA' to 'A' due to weaknesses in their data protection practices. The bank handles a significant amount of personal data and operates in Austria, where privacy laws are rigorous, making this a concerning issue. Furthermore, MSCI discovered that OeKB lacks an incident response plan to help mitigate risks related to potential security breaches, which is a significant gap. In addition to these shortcomings, OeKB has limited evidence of lending to small and medium-sized enterprises, placing them behind industry peers in financial inclusion initiatives.

Australian 2-year bond yields increased 0.47% over the month to 3.59%, and 10-year yields rose 0.30% to 3.85%.

The RBA met market expectations increasing the official cash rate by 0.25% in early February, however, the accompanying statement was more hawkish than anticipated by the market. Governor Lowe's emphasis on the central bank's commitment to "return inflation to target" unnerved bond investors, who had previously anticipated a near-term pause in the rate-hiking cycle. This hawkishness repriced the yield curve with another 25bp hike expected in March.

Australian economic data was mixed in February with the employment numbers seeing a fall of 11,500 jobs (consensus +20,000). This saw the unemployment rate increased 0.2% to 3.7%. Q4 wages were slightly weaker than expected, increasing by 0.8%, vs. a forecast of +1%. Private capex for Q4 grew by 2.2%, beating expectations by 1.1%. The NAB business survey saw business confidence rise 7 points to +6, while business conditions increased 6 points to +18. Consumer confidence did not fare as well with the Westpac survey falling 6.9% to

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78.5. Retail sales was also lower, falling 3.9%, vs. a forecast of -0.2%. House prices also struggled as the Core Logic house price index fell 1.1% in January.

In the U.S., 2-year treasury yields increased by 0.61% at 4.82% while the 10-year yield rose 0.41% to 3.92%.

As expected, the Federal Reserve lifted the target for its benchmark interest rate by 0.25% to a range of 4.5% – 4.75%. Inflation was the key theme in Fed Chair Powell's press conference with this speech focusing on the fact that inflation "remains well above our longer-run goal" and that although recent inflation data showed a welcome reduction it was not enough to pause the hiking cycle. Ultimately, February has seen a sharp reassessment of monetary policy outlook. The FOMC minutes released were also more hawkish than expected as the Fed affirmed their resolve to bring down inflation noting, "that maintaining a restrictive monetary policy stance until inflation is clearly on the path of 2% is appropriate". The pricing of "peak" Fed Funds futures has moved higher by more than 50bps since the beginning of the month and the notion of a "Fed pivot," i.e., the market implying rate cuts in 2023, has been almost priced out with the market now expecting Fed Funds to stay above 5% for all of 2023.

US economic data was hotter than expected as Q4 GDP increased by 3.9% annualised, beating expectations by 0.4%. Non-farm payrolls saw 517,000 new jobs created, well above the expected 188,000. This saw the unemployment rate fall 0.1% to 3.4%, with average hourly earnings increasing by 0.3%. CPI increased by 0.5% as expected, sending CPI y/y down 0.1% to 6.4%. Core PCE for January rose by 0.6%, with Core PCE y/y coming in at 4.7%. Personal income increased by 0.6%, while personal spending rose by 1.8%. New home sales increased by 4.7% to 670,000 annualised, and housing starts saw 1.31 million new dwellings commence development. The ISM manufacturing index was 1 point lower, while the ISM services index rose 5.6 points. Consumer confidence declined 1.1% to 107.1

Credit spreads narrowed 5bps on average over the month. All sectors recorded positive returns as spreads tightened and yields fell. Financials were the best performing sector, returning -0.50%, followed by utilities (-0.57%) and industrials (0.67%). YTD total issuance across financials reached A\$21.4bn, which is A\$1.4bn more than at the same period last year, of that, major bank issuance made up A\$10.25bn.

Outlook

After a strong start to the year, fixed income returns were negative in February as bond yield reacted to more hawkish central bank commentary. The shift to a more hawkish stance by the RBA caught the market offside and the re-pricing to a higher terminal cash rate was quite severe. The more hawkish rhetoric from the RBA was in response to the high Q4 22 CPI. Even though global factors explain much of Australia's high inflation strong domestic demand is also adding to the inflationary pressures in a number of areas of the economy. The RBA's central forecast is for CPI inflation to decline to 4.75% in 2023 and to around 3% by mid-2025 and they remain committed to achieving their inflation objective 2-3% over the cycle. The lagged impact of the already delivered rate hikes will slow the economy in 2023 and inflation pressures will abate.

Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	52.6
TREASURY CORPORATION OF VICTORIA	7.1
QUEENSLAND TREASURY CORPORATION	7.1
NEW SOUTH WALES TREASURY CORPORATION	7.0
WESTERN AUSTRALIAN TREASURY CORPORATION	2.6
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.6
INTERNATIONAL FINANCE CORP	1.5
LANDWIRTSCHAFTLICHE RENTENBANK	1.2
BNG BANK NV	1.2
KFW	1.1

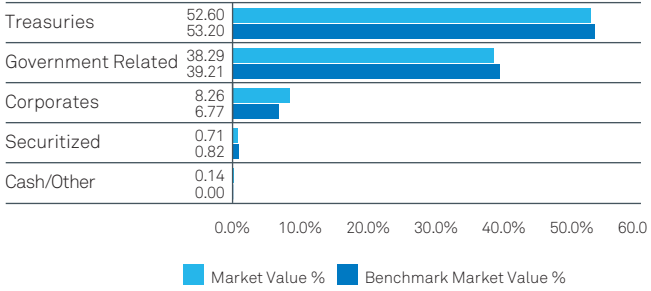
Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.10	5.10	0.00
Duration x spread	1.63	1.70	-0.07
Yield	4.07	4.08	-0.01
Average Coupon (%)	2.69	2.75	-0.06
Average Maturity (Years)	5.91	5.93	-0.01
Green Bonds	3.94	1.91	2.04
ESG Score	7.37	7.36	0.01

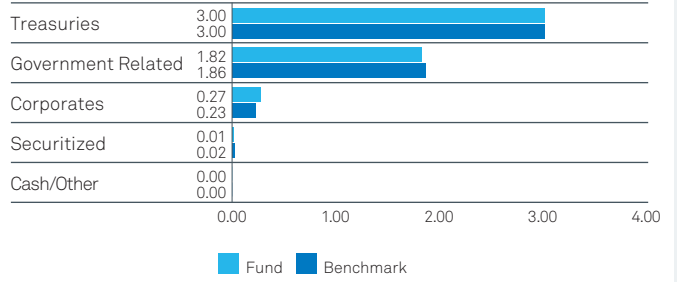
Top 10 Issuers held by ESG score

Issuer	ESG Score
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
KFW	10.0
NORDIC INVESTMENT BANK	10.0
STOCKLAND TRUST	10.0
TRANSURBAN QUEENSLAND FINANCE PTY LTD	10.0
INTERNATIONAL FINANCE CORP	10.0
MIRVAC GROUP FINANCE LTD	10.0

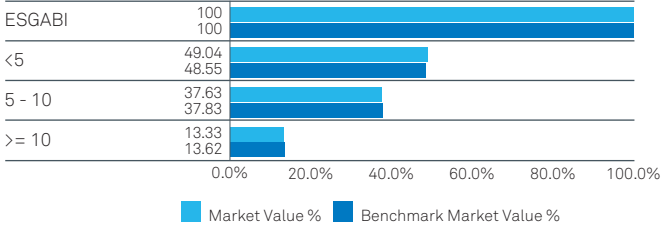
Sector Exposure



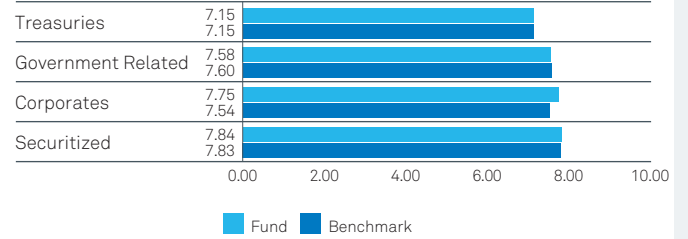
Contribution to Modified Duration



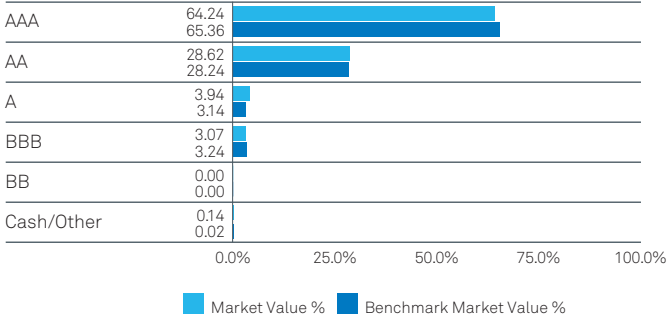
Maturity Exposure



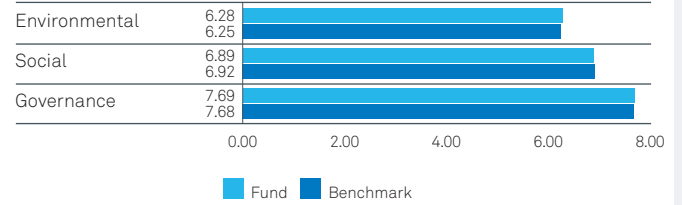
ESG Sector Score



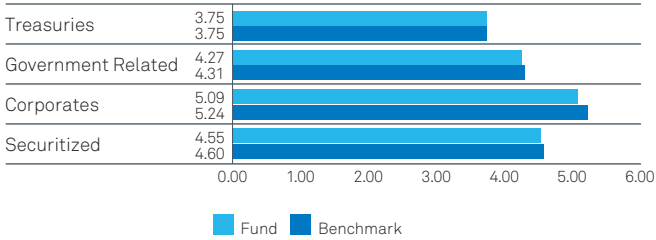
Quality Exposure



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	464 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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