

iSHARES ESG AUSTRALIAN BOND INDEX FUND

iShares®
by BLACKROCK®

FUND UPDATE

31 March 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)	3.12	4.55	4.55	0.44	-2.26	-	0.55
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	3.11	4.53	4.53	0.43	-2.18	-	0.54
Outperformance (Gross of Fees)	0.01	0.02	0.02	0.01	-0.09	-	0.01
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	3.11	4.50	4.50	0.24	-2.38	-	0.35
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	3.11	4.53	4.53	0.43	-2.18	-	0.54
Outperformance (Net of Fees)	0.00	-0.03	-0.03	-0.19	-0.21	-	-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 3.11% in March. Treasuries (3.52%) was the best performing sub-component, followed by Semi-Governments (3.19%), Supranational-Sovereigns (2.05%) and Credit (1.81%).

MSCI has upgraded Incitec Pivot Limited from 'A' to 'AA'. The upgrade was driven by improvements in the company's governance practices. As of November 2022, Incitec's board no longer has overboarded non-executive directors. Furthermore, recent changes in its executive compensation policies may help allay potential shareholder concerns surrounding its pay practices. Relative to peers, Incitec has a strong business ethics framework, with detailed anti-bribery policies and whistleblower protection provisions.

Australian 2-year bond yields decreased 0.64% over the month to 2.95%, and 10-year yields fell 0.55% to 3.30%.

The RBA delivered a 10th consecutive rate hike last week, raising the cash rate to 3.60%, as expected, and interest on ES balances to 3.50%. However, the RBA's accompanying statement was unequivocally dovish, especially in the final paragraph. The central bank dropped its previous reference to "further interest rate increases" and replaced it with "further tightening," which gives it more optionality, including the possibility of just one more hike. In addition, the RBA opened the door to a pause or possible peak in rates at any point depending on upcoming data.

Australian economic data was mixed in March as GDP for Q4 increased by 0.5%, missing its forecast by 0.3%. This saw GDPYoY fall to 2.7%, down from 5.9% but in line with expectations. Employment numbers saw 64,600 new jobs created. This was 14,600 more than expected and saw the unemployment rate fall 0.2% to 3.5%. The participation rate rose 0.1% to 66.6%. CPI y/y for February declined 0.6% to 6.4%. This was 0.4% less than expected. The NAB business survey saw business confidence fall 10 points to -6, while business conditions were down just

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one point to 17. Consumer confidence remained unchanged coming in at 78.5. Retail sales rose by 0.2% and in line with expectations. Private sector credit for February increased by 0.3%, vs. a forecast of +0.4%. Private sector credit y/y is now at 7.6%.

In the U.S., 2-year treasury yields decreased by 0.79% at 4.03% while the 10-year yield fell 0.45% to 3.47%.

The Federal Reserve raised rates by 0.25% at its March meeting but appears to be nearing the end of its rate-hiking cycle. The Fed's outlook for a peak fed funds rate of 5.1% implies that perhaps one more rate hike of 0.25% may be ahead. The Fed shifted to a softer tone on rate hikes in their statement, going from "ongoing rate increases will be appropriate" to "some additional policy firming may be appropriate." Furthermore, the Fed noted that the recent turmoil in the US banking system is expected to lead to tighter credit conditions for households and businesses, which could potentially hinder economic activity, hiring, and inflation. Markets are currently pricing in a ~70% chance of one more rate hike at the May meeting followed by cuts taking place over the second half of the year.

U.S. economic data continues to be on the more positive side as non-farm payrolls saw 311,000 new jobs created, 86,000 more than expected. Despite the better-than-expected result the unemployment rate rose 0.2% to 3.6% with the participation rate rising 0.1% to 62.5%. February CPI increased by 0.4%, which was in-line with market expectations. CPI y/y remained unchanged at 6%. PPI fell -0.1%, vs. a forecast of +0.3%, which saw PPI y/y fall 1.4% to 4.6%. The PCE deflator rose by 0.3% in February. This was in line with expectations and saw PCE y/y fall 0.1% to 4.6%. Final GDP for Q4 grew by 2.6% annualised. This was 0.1% less than expected. Consumer confidence increased by 1.3 points to 104.2. Personal income was up 0.3% over the month, this was 0.1% higher than forecast. Personal spending increased by 0.2% which was 0.1% lower than expected.

Credit spreads were 17bps wider on average over the month. All sectors recorded positive returns as yields fell significantly. Industrials were the best performing sector, returning 2.08%, followed by utilities (+1.96%) and financials (+1.56%). YTD total issuance across financials reached A\$37.8bn, which is A\$10.1bn more than at the same period last year, of that, major bank issuance made up A\$19.5bn.

Outlook

It was a strong month for fixed income with bonds rallying and markets repricing terminal rates on the back of the shockwaves that made their way through the banking system with the collapse of Silicon Valley Bank followed by Credit Suisse. While the global hiking cycle is maturing, it is not over yet with inflation risks remaining apparent. Central bankers remain committed, at least on the surface, to ensuring high inflation does not become entrenched.

The RBA held steady at the April meeting following 10 consecutive rate hikes but further hikes by the RBA cannot be completely ruled out at this stage. Currently, our central case remains that the RBA will reach a terminal cash rate of 3.85% but acknowledge the Bank could well be done. The near-term outlook for rates remains constructive simply because the economic data has a softer feel to it both here and in the US. If we do see a back-up in bond yields, we expect it to be very well supported by investors looking to buy the dip. The market currently has one 25bp RBA rate cut priced in by year-end, which we think is somewhat optimistic given the current environment.

Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	53.6
NEW SOUTH WALES TREASURY CORPORATION	7.4
TREASURY CORPORATION OF VICTORIA	7.2
QUEENSLAND TREASURY CORPORATION	7.0
WESTERN AUSTRALIAN TREASURY CORPORATION	2.5
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.7
INTERNATIONAL FINANCE CORP	1.5
LANDWIRTSCHAFTLICHE RENTENBANK	1.2
EUROPEAN INVESTMENT BANK	1.2
BNG BANK NV	1.0

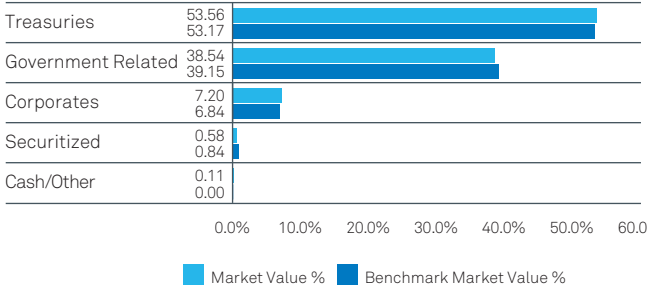
Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.15	5.16	0.00
Duration x spread	1.77	1.91	-0.14
Yield	3.53	3.56	-0.03
Average Coupon (%)	2.71	2.76	-0.05
Average Maturity (Years)	5.95	5.96	-0.01
Green Bonds	3.78	2.09	1.69
ESG Score	7.35	7.35	0.00

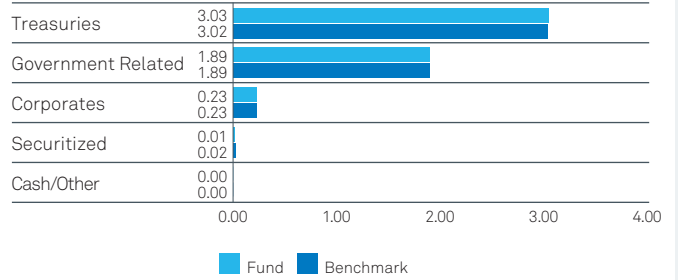
Top 10 Issuers held by ESG score

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
INTERNATIONAL FINANCE CORP	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

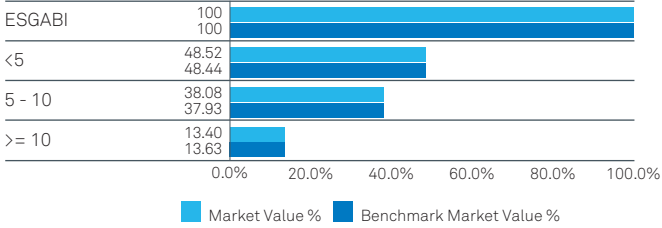
Sector Exposure



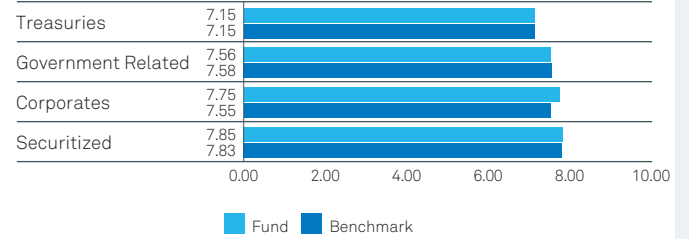
Contribution to Modified Duration



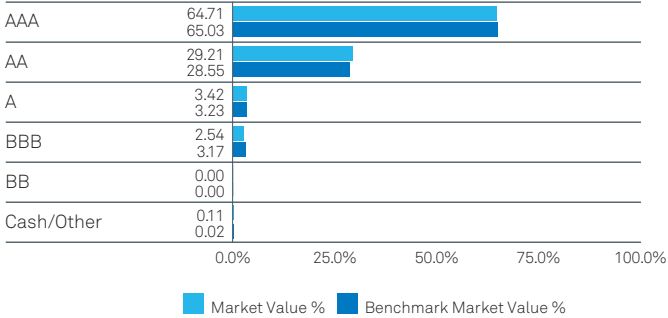
Maturity Exposure



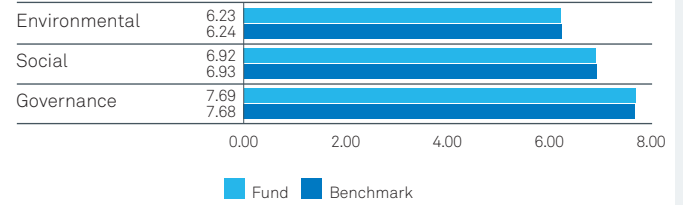
ESG Sector Score



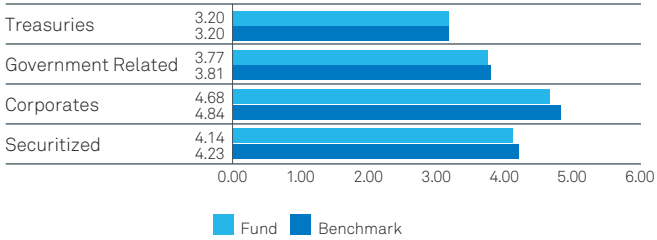
Quality Exposure



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	569 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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