

# iSHARES ESG AUSTRALIAN BOND INDEX FUND

iShares®  
by BLACKROCK®

FUND UPDATE

31 May 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)	-1.18	2.11	3.53	1.77	-2.67	-	0.31
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-1.19	2.09	3.51	1.76	-2.66	-	0.29
Outperformance (Gross of Fees)	0.01	0.02	0.02	0.02	-0.01	-	0.01
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	-1.20	2.06	3.44	1.57	-2.81	-	0.11
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-1.19	2.09	3.51	1.76	-2.66	-	0.29
Outperformance (Net of Fees)	-0.01	-0.03	-0.06	-0.19	-0.15	-	-0.18

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 -1.18% in May. Treasuries (-1.40%) was the worst performing sub-component, followed by Semi-Governments (-1.27%), Supranational-Sovereigns (-0.55%) and Credit (-0.50%).

MSCI has upgraded the Commonwealth Bank of Australia (CBA) from 'A' to 'AA'. The upgrade was driven by improvements in CBA's consumer protection practices. MSCI's latest assessment suggests the bank has fair advertising and debt collection policies that may help protect consumer interests. Further, MSCI noted a decline in their customer complaints over 2022 (-19% YoY). MSCI also highlighted that even though CBA have certain industry-leading talent management practices such as engagement surveys, there are controversies related to alleged underpayment of staff wages and benefits that weigh on its score.

Australian 2-year bond yields increased 0.51% over the month to 3.55%, and 10-year yields rose 0.27% to 3.61%.

The RBA raised the cash rate to its highest level since May 2012, raising by 25bps and taking it to 3.85%. The market was completely wrong-footed by the hike given the previously articulated preference to tolerate higher inflation and a slower return to target in order to preserve the gains made in employment growth. The RBA has effectively flipped its position and Governor Lowe made this quite clear in a speech delivered post the meeting in which he noted "We don't need to get inflation back to target straight away, but nor can we take too long" and that the RBA is seeking to bring inflation down within a "reasonable time frame".

In Australia, data was mixed with economic pressures from rate rises starting to build. We saw employment numbers fall as 4,300 jobs were lost vs. a forecast of +25,000. This saw the unemployment rate increase by 0.2% to 3.7%, with the participation rate remaining steady at 66.7%. The wage price index (WPI) for Q1 increased 0.8%, this was 0.1% lower than expected and saw the WPI y/y increase by 0.4% to 3.7%. The Melbourne Institute inflation gauge rose by

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0.2%, 0.1% lower than the prior month, this resulted in the y/y number rising from 5.7% to 6.1%. The NAB business survey saw business conditions fall 2 points to 14, while business confidence rose 1 point from -1 to 0. The CBA household spending index saw a decrease of -4.3% over May. This resulted in a fall for household spending growth of 0.1% over the year to +3.7%. Consumer confidence fell 7.9% to a level of 79. Retail sales came in flat for May, which was lower than expected (+0.3%). Australia's trade balance delivered a A\$15.3bn surplus, beating the forecast by A\$2.3bn.

In the U.S., 2-year treasury yields increased by 0.40% at 4.41% while the 10-year yield rose 0.22% to 3.64%.

The Fed raised rates by 0.25%, its 10th consecutive rate hike since March 2022, bringing the Fed Funds rate to target range of 5.0% – 5.25%. While the Fed may be considering pausing its rate-hiking cycle, Chair Powell pushed back on the notion that rate cuts may be coming any time soon. He noted that “it would not be appropriate to cut rates” given inflation remains elevated and may take time to ease back towards the 2.0% target. The FOMC statement emphasized that future actions would hinge on incoming data and economic developments. During the press conference, Powell strongly hinted that the Fed Funds rate might be near the peak level for this cycle. However, Powell also kept the option for further monetary tightening on the table, stating that “a decision to pause was not made today.” Nonetheless, markets continue to price in small Fed rate cuts towards the end of the year.

U.S. economic data continues to be solid with non-farm payrolls adding 253,000 new jobs; this was 68,000 more than expected and saw the unemployment rate fall 0.1% to 3.4%. Average hourly earnings rose 0.5%, vs. a forecast of 0.2%, taking the annual rate to 4.4%. Both headline and core CPI for May came in as expected at 0.4%. This saw headline CPI y/y fall 0.1% to 4.9%, while Core CPI y/y also fell 0.1% to 5.5%. Preliminary GDP for Q1 increased by 1.3% annualised. This was 0.2% higher than forecasted. Personal consumption for Q1 increased by 3.8%, vs. a forecast of 3.7%. The ISM manufacturing index rose 0.8 of a point to 47.1, while the services index rose 0.7 of a point to 51.9. Existing home sales fell 3.4% to 4.3 million annualised.

Credit spreads were 8bps narrower on average over the month and while all sectors recorded negative returns, credit was the best performing sub index within the composite. Financials were the best performing sector, returning -0.42%, followed by industrials (-0.57%) and utilities (-0.60%). YTD total issuance across financials reached A\$56.5bn, which is A\$25.5bn more than at the same period last year, of that, major bank issuances made up A\$27.5bn.

## Outlook

Negative bond market sentiment persisted throughout May sending Australian yields higher. Driving this was the RBA's unexpected rate rise, strong wages and inflation data, as well as concerns around the US reaching an agreement on their debt ceiling. Global bonds also experienced similar fates as yields in the US and UK rose significantly. With the RBA raising rates after taking just a one month pause, it's clear their focus has shifted back towards inflation and inflation expectations. We expected more work to be done in the near term post their May meeting and this was evident as the RBA raised rates another 25bps at the June meeting, taking the cash rate to 4.10%. Looking ahead, rising house prices, persistent high inflation prints and the Fair Work Commission's decision to mandate an 8.6% increase to the minimum wage and a 5.75% increase to the award wage will continue to keep pressure on the bank, meaning economic growth and jobs will be taking a backset as the RBA attempts to get inflation down in a timely manner. We are now expecting at least one and possibly two further rate rises between now and year end.

### Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	51.8
NEW SOUTH WALES TREASURY CORPORATION	7.5
TREASURY CORPORATION OF VICTORIA	7.3
QUEENSLAND TREASURY CORPORATION	7.2
WESTERN AUSTRALIAN TREASURY CORPORATION	2.5
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.7
INTERNATIONAL FINANCE CORP	1.6
EUROPEAN INVESTMENT BANK	1.3
LANDWIRTSCHAFTLICHE RENTENBANK	1.2
KFW	1.1

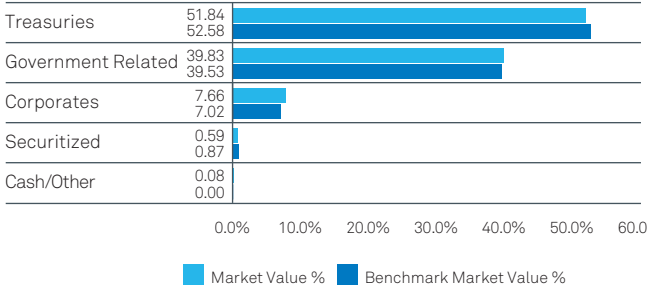
### Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.25	5.25	0.00
Duration x spread	1.71	1.79	-0.08
Yield	3.88	3.90	-0.02
Average Coupon (%)	2.67	2.70	-0.04
Average Maturity (Years)	6.07	6.08	-0.01
Green Bonds	4.13	2.23	1.90
ESG Score	7.36	7.36	0.00

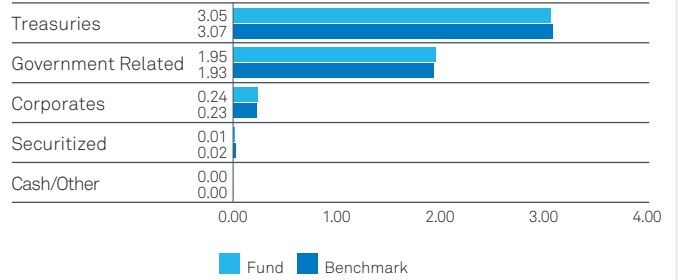
### Top 10 Issuers held by ESG score

Issuer	ESG Score
TRANSURBAN QUEENSLAND FINANCE PTY LTD	10.0
GPT RE LTD	10.0
GPT WHOLESALE SHOPPING CENTRE FUND NO 1	10.0
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	10.0
KFW	10.0
MIRVAC GROUP FINANCE LTD	10.0
NORDIC INVESTMENT BANK	10.0
INTERNATIONAL FINANCE CORP	10.0
DEXUS FINANCE PTY LTD	9.8
COCA-COLA CO	9.6

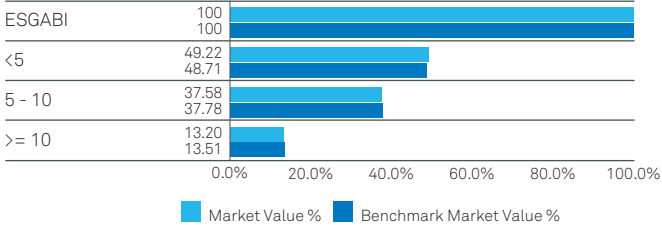
### Sector Exposure



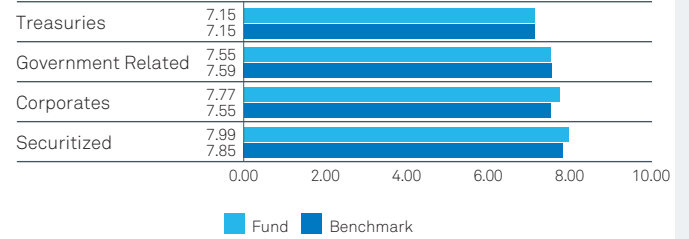
### Contribution to Modified Duration



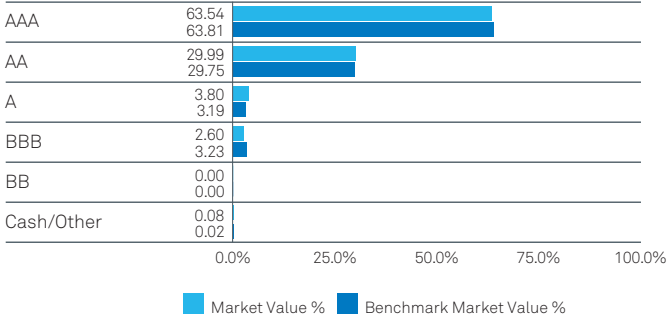
### Maturity Exposure



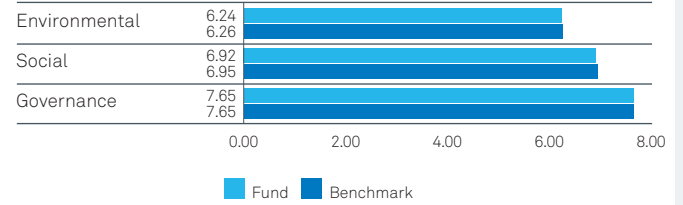
### ESG Sector Score



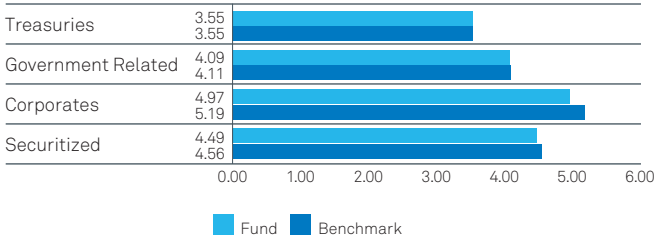
### Quality Exposure



### 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	553 mil
Buy/Sell Spread	0.05%/0.05%
Tracking Error (3 years p.a.)	0.04%

##### iShares ESG Australian Bond Index Fund (Class D)

APIR	BLK2127AU
Management Fee (Class D Units)	0.20% p.a.

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