iSHARES ESG AUSTRALIAN BOND INDEX FUND

iShares by BlackRock

FUND UPDATE **31 July 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)	0.52	-2.59	2.05	-1.45	-3.35	-	-0.03
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	0.53	-2.58	2.05	-1.43	-3.34	-	-0.04
Outperformance (Gross of Fees)	-0.02	-0.01	0.00	-0.02	-0.02	-	0.01
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	0.50	-2.64	1.93	-1.64	-3.54	-	-0.23
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	0.53	-2.58	2.05	-1.43	-3.34	-	-0.04
Outperformance (Net of Fees)	-0.03	-0.06	-0.12	-0.22	-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.

Visit **BlackRock.com.au** for further information, including:

- Market Insights & Commentary
- Fund Performance
- Unit Prices

Performance Summary

Market Review

The Bloomberg MSCI Australia SRI/ESG-Weighted A$100M Index (the "Index") returned 0.53% in July. Credit (0.84%) was the best performing sub-component, followed by Supranational-Sovereigns (0.59%), Semi-Governments (0.42%) and Treasuries (0.49%).

MSCI has released new information regarding Bacrlay's PLC, seeing their Overall ESG Score remain at 1. MSCI note that Barclays is under investigation in the United States over alleged manipulation of interest rates on variable-rate demand obligations (VRDOs). While in the United Kingdom, the FCA has ordered the bank to repay borrowers for timeshare loans allegedly sold unfairly by a timeshare operator in Malta.

Australian 2-year bond yields decreased 0.28% over the month to 3.94%, and 10-year yields rose 0.04% to 4.06%.

The RBA kept the cash rate unchanged at 4.1% but it was a close call among market participants. The Board cited the need to assess more data but retained its hawkish rates guidance. The RBA's decision to pause was to provide the Bank "some time to assess the impact of the increase in interest rates to date and the economic outlook". The short statement confirmed a tightening bias yet was clear further rate hikes would be data dependent amid the uncertainty as to how much the economy will weaken and by when and how much inflation will decline. The RBA shifted back to the language they had used at their pause in April, namely that interest rates have increased a lot and are having a lagged impact. The RBA noted that "higher interest rates are working to establish a more sustainable balance between supply and demand in the economy and will continue to do so." But there is "uncertainty" as to how much, hence the decision to hold "provides the Board with more time to assess the state of the economy and the economic outlook and associated risks." The bar to hike looks a little higher from this statement and it would be reasonable to expect another pause next month.

In Australia, data continues to be steady with the employment change seeing 32,600 new jobs created. This exceeded the expected +15,000 and saw the unemployment rate fall 0.1% to 3.5%, while the participation rate fell 0.1% to 66.8%. CPI for Q2 printed 0.2% lower than expected at 0.8%. This saw CPI y/y fall 1% to 6%. Trimmed mean CPI for Q2 was also 0.2% lower than expected at 0.9%, with the y/y growth rate falling 0.7% to 5.9%. The NAB business survey saw business confidence increase by 4 points to zero, while business conditions were up 1 point to 9. Consumer confidence was higher, with the Westpac survey up 2.7% to 81.3. On the downside, CBA household spending in June saw a fall of -1.7%, taking the annual growth to +2.4%, down from +4.7%. Retail sales declined by -0.8% in June, down from +0.7% in May.

In the U.S., 2-year treasury yields decreased by 0.02% at 4.88% while the 10-year yield rose 0.12% to 3.96%.

As expected, the Fed raised interest rates by 0.25% at its July FOMC meeting, bringing the fed funds rate to a target range of 5.25% to 5.5%. This is the highest that the funds rate has been in 22 years with Fed Chair Jerome Powell acknowledging that "restrictive" monetary policy was now "putting downward pressure on economic growth and inflation," but also stressed that further changes to interest rates would be guided by incoming data and was careful not to declare "mission accomplished." He emphasized that no decision had been made on future rate hikes or on the September meeting. The Fed and markets will have two further CPI inflation prints and two U.S. jobs reports between now and the next meeting which is set for Sept. 20th that will help determine the path of interest rates going forward. Markets are currently pricing in a ~20% chance of a further rate hike in September.

U.S. economic data continues to be better than expected as headline and core CPI increased 0.2% over June. This was 0.1% lower than expected and saw headline CPI y/y fall 1% to 4%, while core CPI y/y fell 0.5% to 4.8%. Core PCE deflator increased by 0.2% in June. This saw the annual growth rate fall 0.5% to 4.1%. Advanced GDP for Q2 increased by 2.4% vs. a forecast of 1.8%. Employment remained steady with non-farm payrolls seeing 209,000 new jobs created, just shy of the forecasted 230,000. This saw the unemployment rate drop 0.1% to 3.6%. Retail sales increased by 0.2%, vs. a forecast of +0.5%. Consumer confidence increased by 7.3 points to 117. Housing had a tough month with housing starts falling by ~130,000 to 1.43m annualised, while existing home sales were ~240,000 lower at 4.16m annualised and new home sales fell by 2.5% to 697,000 annualised.

Credit spreads were 2bps narrower on average over the month, with all sectors recording positive returns. Credit was the best performing sub index within the composite with utilities the best performing sector, returning 1.04%, this was followed by financials (0.90%) and industrials (0.85%). YTD total issuance across financials reached A$71.8bn, which is A$19.9bn more than at the same period last year, of that, major bank issuances made up A$34.5bn.

Outlook

In Australia, the release of a better-than-expected inflation number, some softer economic data and the RBA staying on hold helped drive front end yields lower which was positive for bonds. Post month end the RBA continued to remain on hold at their August meeting and market economists continued to struggle to predict the RBA's next move as a majority were calling for another hike. Markets on the other hand are pricing in just ~10bp of further rate rises this year which equates to approximately a 20% chance we will see another hike. However, with Governor Lowe to be replaced after next month's September meeting, it is unlikely we will see another rate rise under his tenure and will have to wait and see what Michelle Bullock has planned.

Globally, even though inflation has trended lower, it remains elevated and 10-year yields drifted higher in July as markets continued to focus on the strength of labor markets and how rising wages remain supportive of consumer and economic growth, as well as the likelihood that central banks will keep short-term rates higher for longer. Or at least until inflation moves closer to their target bands. While the RBA held rates steady, other central banks were busy raising rates further with the Fed, ECB and Bank of Canada all raising rates by 25bp..

Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	52.4
NEW SOUTH WALES TREASURY CORPORATION	7.7
TREASURY CORPORATION OF VICTORIA	7.5
QUEENSLAND TREASURY CORPORATION	6.7
WESTERN AUSTRALIAN TREASURY CORPORATION	2.8
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.8
INTERNATIONAL FINANCE CORP	1.5
EUROPEAN INVESTMENT BANK	1.2
LANDWIRTSCHAFTLICHE RENTENBANK	1.1
KFW	1.1

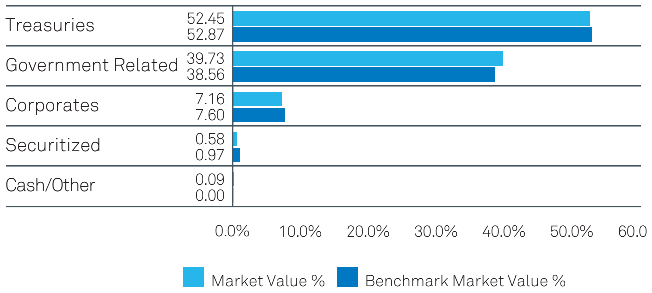
Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.15	5.15	0.00
Duration x spread	1.58	1.69	-0.12
Yield	4.29	4.32	-0.03
Average Coupon (%)	2.67	2.72	-0.05
Average Maturity (Years)	5.99	6.00	-0.01
Green Bonds	4.31	2.29	2.02
ESG Score	7.24	7.21	0.03

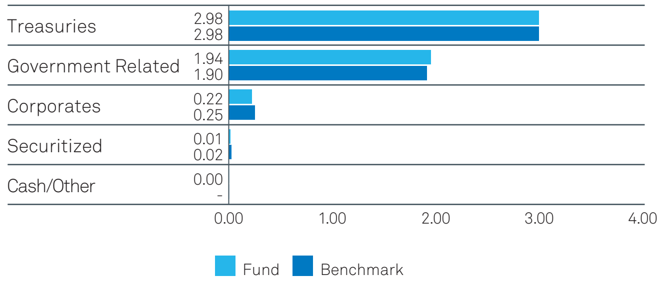
Top 10 Issuers held by ESG score

Issuer	ESG Score
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
TRANSURBAN QUEENSLAND FINANCE PTY LTD	10.0
DEXUS FINANCE PTY LTD	9.8
CNH INDUSTRIAL CAPITAL AUSTRALIA PTY LTD	9.7
COCA-COLA CO	9.6
EUROPEAN INVESTMENT BANK	9.5

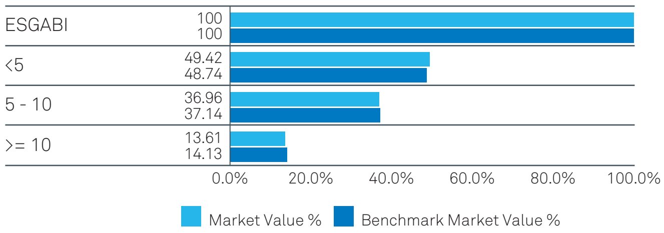
Sector Exposure



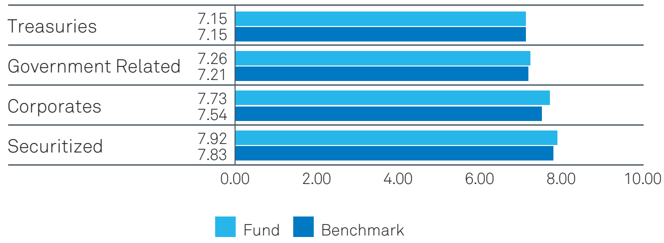
Contribution to Modified Duration



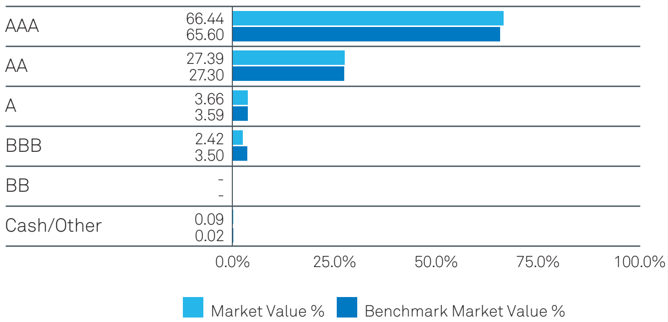
Maturity Exposure



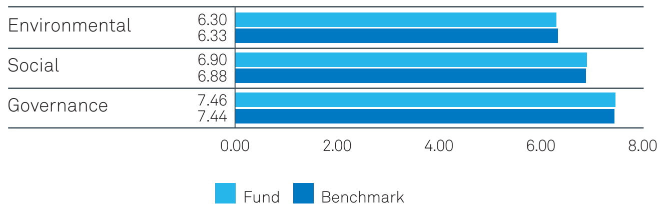
ESG Sector Score



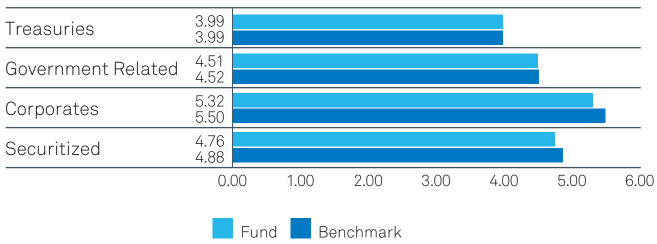
Quality Exposure



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.)	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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