

iSHARES ESG AUSTRALIAN BOND INDEX FUND



FUND UPDATE

30 September 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)	-1.52	-0.28	1.24	1.62	-3.82		-0.20
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-1.52	-0.26	1.24	1.62	-3.80		-0.20
Outperformance (Gross of Fees)	0.00	-0.02	0.00	0.00	-0.02		0.01
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	-1.53	-0.33	1.09	1.42	-4.00		-0.39
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-1.52	-0.26	1.24	1.62	-3.80		-0.20
Outperformance (Net of Fees)	-0.02	-0.07	-0.15	-0.20	-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 -1.52% in September. Supranational-Sovereigns (-0.52%) was the best performing sub-component, followed by Credit (-0.54%), Semi-Governments (-1.50%) and Treasuries (-1.88%).

MSCI has downgraded the ESG score of Vodafone Group PLC from 'AA' to 'A'. This comes on the back of potential labour management challenges and weakness in data security initiatives. Vodafone announced plans to cut 11,000 jobs (~10.5% of FY 2023 workforce) over the next three years and while it offers severance pay and outplacement support, such events may impact employee morale and heighten challenges of managing a global and relatively large workforce of over 100,00 employees as of FY 2023. Additionally, the downgrade reflects MSCI's latest assessment of its data privacy policy, which appears to lack groupwide applicability.

Australian 2-year bond yields increased 0.29% over the month to 4.08%, and 10-year yields rose 0.46% to 4.49%.

RBA Governor Lowe's final board meeting came and went in a relatively non-eventful manner with the Board holding the cash rate target steady at 4.10% along with minimal alterations to the statement being made. This was widely expected with 33 of 34 economists in the Bloomberg survey tipping no change. While the board did consider the case for raising rates, it appears for the time being the RBA believes the hikes delivered are sufficient and the economy is on track to lower inflation. The minutes noted that "some further tightening in policy may be required should inflation prove more persistent than expected", maintaining their tightening bias. As it stands, the RBA are now data dependent and the hurdle for a November rate hike remains high, yet markets have moved slightly closer, pricing in a ~33% chance.

In Australia data continues to surprise on the upside as 64,900 new jobs were created, significantly more than the forecast of 25,000. The unemployment rate remained unchanged

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at 3.7% as the participation rate increased by 0.3% to 67.0%. GDP for Q2 saw an increase of 0.4%, which was in line with market expectations and saw GDP y/y deliver 2.1% of growth, 0.3% higher than expected. The Melbourne-Institute inflation gauge rose 0.2% over August, down from +0.9% the prior month. The ABS's monthly CPI for August was in line with expectations at 5.2%. The NAB business survey saw confidence rise 1 point to 2, while business conditions were up 2 points to 13. Consumer confidence fell slightly, with the Westpac survey moving 1.5% lower to 79.7. Private sector credit for August rose by 0.4%, which was 0.1% higher than expected and saw private sector credit y/y come in at 5.1%.

In the U.S., 2-year treasury yields increased by 0.18% at 5.04% while the 10-year yield rose 0.46% to 4.57%.

As expected, the FOMC left the Fed's Fund rate at a target range of 5.25% to 5.50% with the updated Summary of Economic Predictions continuing to show one more rate hike in 2023. However, policymakers surprised markets with an outlook for rates in 2024 that was notably higher than expected, as Jerome Powell noted the Fed will continue to keep rates elevated until inflation moves more convincingly toward 2.0%. The Fed's new set of projections reduced the number of potential rate cuts in 2024, from 1.0% to 0.50% of cuts next year – implying that the elevated interest-rate environment may last longer than expected. The market was quick to react to this more hawkish messaging from the Fed with Treasury yields moving sharply higher, as both the 2-year and 10-year yields shifted to new highs for the cycle.

U.S. economic data also continues to be better than expected for the most part. Non-farm payrolls saw 187,000 new jobs created; this was 17,000 more than expected. Despite the outperformance in new jobs the unemployment rate increased 0.3% to 3.8% with the participation rate rising 0.2% to 62.8%. Headline CPI for August rose 0.6%, in line with market consensus and saw CPI y/y increase 0.5% to 3.7%. Trimmed mean CPI y/y growth rate slowed from 4.7% to 4.3% as the m/m increase was 0.3%. Final GDP for Q2 rose by 2.1%, 0.1% lower than expected but unchanged from Q1. Core PCE rose by 0.1% for August, this was 0.1% lower than forecasted and saw core PCE y/y fall 0.3% to 3.9%. Retail sales were up 0.6%, vs. a forecast of +0.1%. Consumer confidence fell 3.1 points to 103.0.

Credit spreads were 3.5bps narrower on average over the month making credit one of the better performing components of the index. Financials were the best performing sector (-0.41%), this was followed by industrials (-0.74%) and utilities (-0.78%). YTD total issuance across financials reached A\$102.7bn, which is A\$20.8bn more than at the same period last year, of that, major bank issuances made up A\$51.7bn.

Outlook

Fixed income had a challenging month as economic data continued to surprise on the upside and hawkish messaging persisted from central banks, including the RBA. The new RBA Governor, Michelle Bullock, decided to keep the cash rate unchanged and delivered a very consistent message from the prior month along the lines of the RBA remaining 'data dependent' but will hike further if required. This has markets and economists at odds over whether the bank still has more work to do. Many economists are tipping one or two more rate rises will be required should the RBA wish to reach their inflation forecast of moving below 3% by the end of 2025, whereas current market pricing has only a marginal chance of one further rate hike. Our view remains unchanged in that it is premature to call an end to the RBA hiking cycle given the tight labour market and inflation pressures evident in key areas of the economy. Looking ahead, Q3 inflation released later this month will likely be the deciding factor in whether we see another rate hike this side of 2023.

Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	52.0
NEW SOUTH WALES TREASURY CORPORATION	8.1
TREASURY CORPORATION OF VICTORIA	7.5
QUEENSLAND TREASURY CORPORATION	6.8
WESTERN AUSTRALIAN TREASURY CORPORATION	2.6
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.9
INTERNATIONAL FINANCE CORP	1.3
EUROPEAN INVESTMENT BANK	1.2
LANDWIRTSCHAFTLICHE RENTENBANK	1.1
KFW	1.0

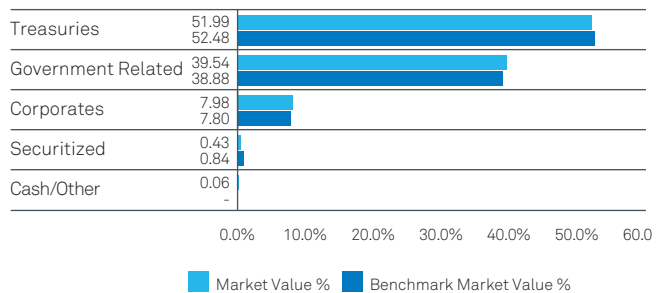
Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.01	5.01	0.01
Duration x spread	1.34	1.46	-0.12
Yield	4.52	4.55	-0.02
Average Coupon (%)	2.68	2.72	-0.04
Average Maturity (Years)	5.85	5.86	-0.01
Green Bonds	4.17	2.30	1.87
ESG Score	7.23	7.21	0.03

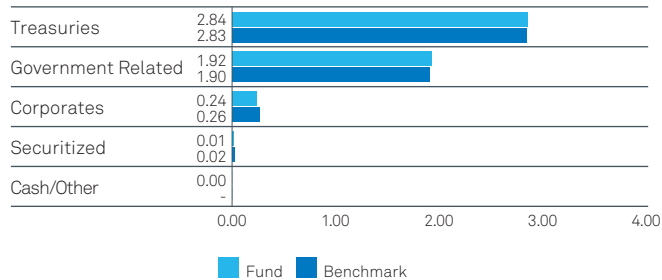
Top 10 Issuers held by ESG score

Issuer	ESG Score
NORDIC INVESTMENT BANK	10.0
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	10.0
KFW	10.0
MIRVAC GROUP FINANCE LTD	10.0
TRANSURBAN QUEENSLAND FINANCE PTY LTD	10.0
INTERNATIONAL FINANCE CORP	10.0
DEXUS FINANCE PTY LTD	9.8
CNH INDUSTRIAL CAPITAL AUSTRALIA PTY LTD	9.7
EUROFIMA	9.5
INTER-AMERICAN DEVELOPMENT BANK	9.5

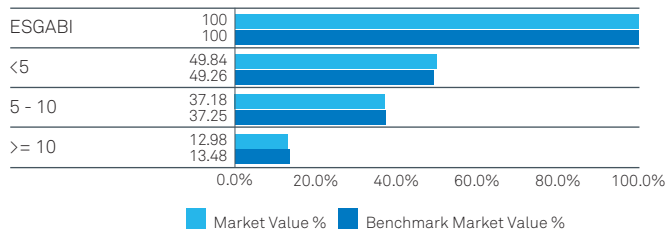
Sector Exposure



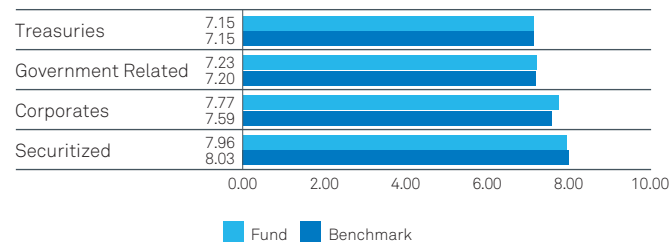
Contribution to Modified Duration



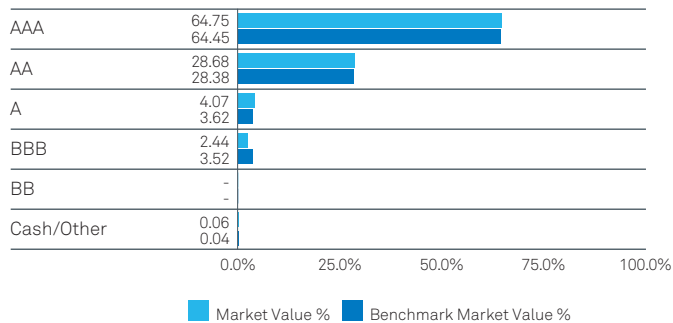
Maturity Exposure



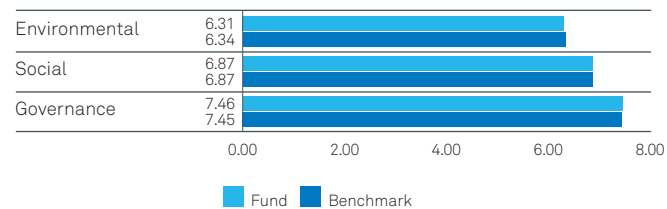
ESG Sector Score



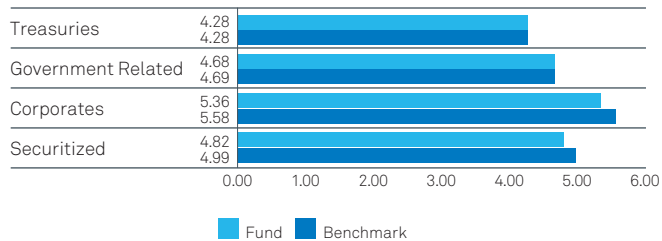
Quality Exposure



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	571 mil
Buy/Sell Spread	0.05%/0.05%
Tracking Error (3 years p.a.)	0.03%

iShares ESG Australian Bond Index Fund (Class D)

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

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