

# iSHARES ESG AUSTRALIAN BOND INDEX FUND

**iShares**  
by BLACKROCK®

FUND UPDATE

28 February 2022

## 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	-2.06	-2.13	-1.01	1.62	-	1.83
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-1.17	-2.04	-2.13	-0.96	1.61	-	1.81
Outperformance (Gross of Fees)	-0.01	-0.01	0.00	-0.05	0.02	-	0.02
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	-1.19	-2.11	-2.16	-1.19	1.42	-	1.63
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-1.17	-2.04	-2.13	-0.96	1.61	-	1.81
Outperformance (Net of Fees)	-0.02	-0.06	-0.04	-0.23	-0.18	-	-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 Barclays MSCI SRI/ESG-Weighted A\$100M Index (the "Index") returned 0.09% in February. Supranational Sovereigns (-0.82%) were the top performing sub-component followed by Credit (-1.02%), Semi-Govt (-1.09%), and Treasuries (-1.31%)

ESG research by MSCI has seen them upgrade Verizon Communications to 'AA' from 'A'. The upgrade has been driven by Verizon's robust governance practices relative to peers. The company continues to demonstrate strong management practices across several key ESG issues, notably in governance. Verizon performs relatively well compared to peers on privacy and data security management; which MSCI note, this may help the company mitigate remedial costs and regulatory risks in the event of a breach.

Australian 2-year bond yields rose 0.22% over the month to 1.10%, while 10-year yields increased 0.24% to 2.14%.

The RBA maintained the cash rate target at 0.10%, and as expected, ceased the QE program. However, the accompanying post-meeting statement reinforced their stance that ending QE did not mean that rate hikes were imminent. This is because the RBA are not yet convinced that "sustainable" inflation and wage rises are apparent. Governor Lowe highlighted he intends to be "patient" in assessing how supply and demand factors settle following the supply-side related pandemic economic challenges.

Domestic data was strong as the rebound from the recent delta virus strain eased. Wages for Q4 increased by 0.7%, up 0.1% from the prior quarter and saw wages y-o-y reach 2.3%. Not quite where the RBA would like to see them but moving in the right direction. Q4 GDP rose by 3.4% q-o-q, and by 4.2% y-o-y, rebounding strongly with re-opening, following lockdowns in Q3. Employment data saw 12,900 new jobs created, vs. a forecast of flat. The unemployment rate remained at 4.2%, while the participation rate increased by 0.1% to 66.2%. The NAB

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business surveys for January saw business conditions fall 5 points to +3, while business confidence rose 15 to +3 points. Consumer confidence fell as the Westpac index was down 1.3% to 100.8. Retail sales for Q4 increased 8.2%, 0.4% better than expected. Private sector credit increased by 0.6% over January, taking the y/y growth rate to 7.6%. Australia's trade balance delivered a surplus of A\$8.4bn, this was A\$1.5bn less than expected.

In the U.S., 2-year treasury yields were 0.25% higher at 1.43% while the 10-year yield rose 0.05% to 1.83%.

Federal Bank officials appear to be sticking with the plan to commence rate hikes in March despite the recent outbreak of war in Ukraine. Fed member Barkin noted it was too early to judge the war's impact on the Fed policy path. Fed Chair Jerome Powell testified at the House and Senate Committee and strongly hinted that a 25bp rate hike was likely at the March 15/16th meeting. The market is focused on the narrative of a hawkish Fed with slower growth and the direct impact on the U.S. economy is limited with trade between the U.S. and Russia being relatively small. Russia is a major commodities producer and exporter, with Europe relying on 40% of its natural gas and 25% of its oil.

U.S. Economic data was strong as non-farm payrolls saw 467,000 new jobs created. This was well above the forecasted +125,000. The unemployment rate did tick 0.1% higher to 4.0% as the participation rate rose to its highest level (62.2%) since the start of the pandemic. Q4 GDP rose by 7% annualised, this was in line with market expectations and up 0.1% from Q3. January CPI rose 0.6%, vs. a forecast of 0.4%. CPI y/y is up to 7.5%, 0.2% higher than consensus. Retail sales were up 3.8%, this was 1.8% better than expected. Consumer confidence slipped 3.3 pts to 110.5. The ISM manufacturing index fell 1.1pts to 57.6, while the ISM services index fell 2.1pts to 59.9.

Credit spreads widened 7bps on average over the month. All sectors recorded negative returns as both yields rose and spreads moved wider. Financials were the best performing sector, returning -0.83%, followed by industrials (-1.30%) with utilities (-1.43%) lagging. YTD total A\$ issuance across financials reached A\$20.6bn, which is A\$16.1bn more than at the same period last year, of that, major bank issuance made up A\$11.6bnbn. YTD issuances for Non-Financial is A\$240m.

## Outlook

Despite strong economic data over the month, February was overshadowed by war breaking out between Russia and Ukraine. The primary concern now from a market's standpoint is rapidly rising inflation due to the importance of Russian and Ukrainian commodity supply into Europe. It's unlikely the global economic expansion will advance completely unscathed given the commodity price shocks now being realized. Market volatility is set to increase markedly. Yet, we don't think this will put an end to the global expansion as governments will be inclined to keep the fiscal taps open. The challenge will be squarely on central banks to balance their monetary policy normalization schedule against upward inflation forces and eventual growth headwinds as consumer incomes are hit from rising prices.

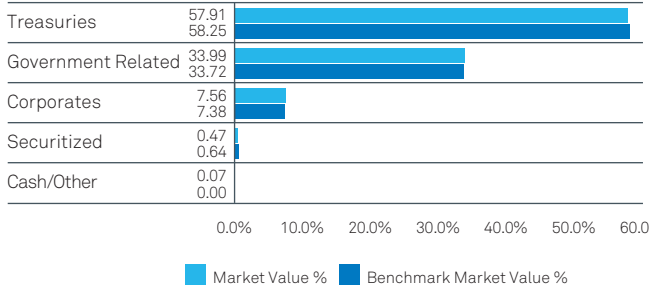
### Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	57.9
QUEENSLAND TREASURY CORPORATION	7.8
NEW SOUTH WALES TREASURY CORPORATION	3.9
TREASURY CORPORATION OF VICTORIA	3.3
WESTERN AUSTRALIAN TREASURY CORPORATION	3.1
LANDWIRTSCHAFTLICHE RENTENBANK	1.8
INTERNATIONAL FINANCE CORP	1.7
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.2
BNG BANK NV	1.2
KFW	1.1

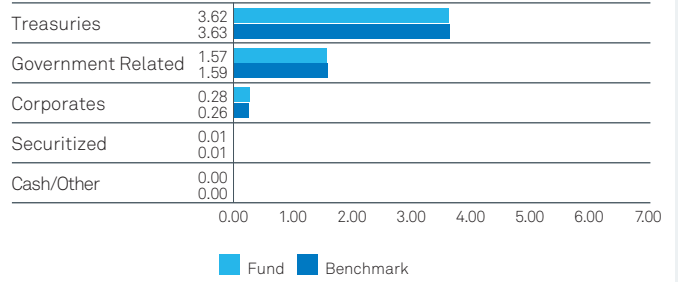
### Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.48	5.49	-0.01
Duration x spread (%)	0.99	1.05	-0.07
Yield (%)	1.88	1.87	0.01
Average Coupon (%)	2.77	2.80	-0.03
Average Maturity (Years)	6.24	6.25	-0.01
Green Bonds (%)	3.83	1.59	2.24
ESG Score	7.36	7.34	0.02

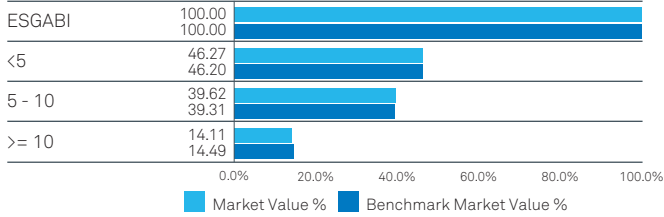
### Sector Exposure



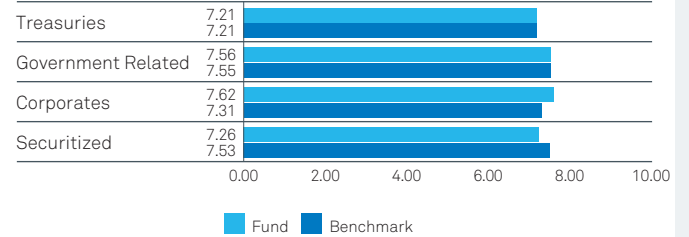
### Contribution to Modified Duration



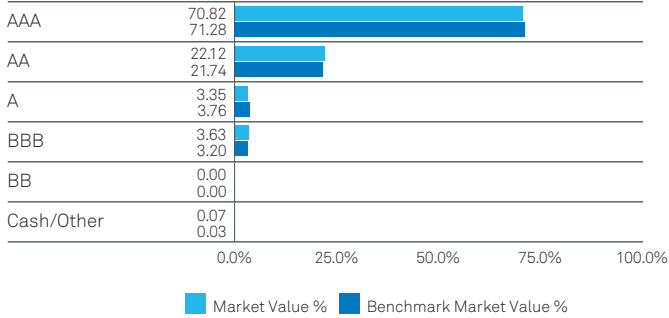
### Maturity Exposure



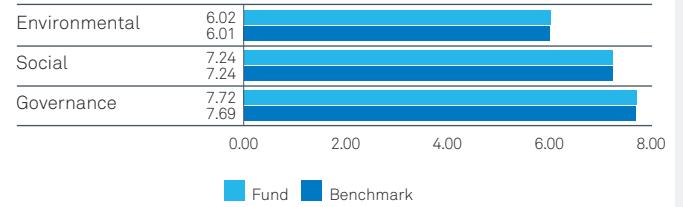
### ESG Sector Score



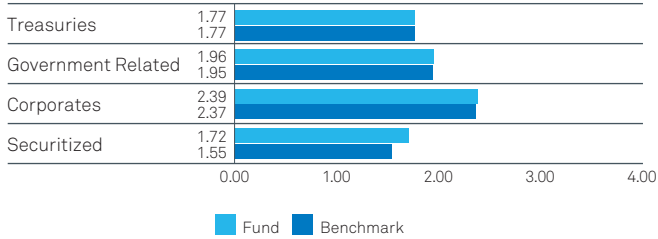
### Quality Exposure



### ESG Score Breakdown



### Yield



### Top 10 Issuers held by ESG score

Issuer	ESG Score
DEXUS FINANCE PTY LTD	10.0
INTER-AMERICAN DEVELOPMENT BANK	10.0
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	10.0
INTERNATIONAL FINANCE CORP	10.0
MIRVAC GROUP FINANCE LTD	10.0
NORDIC INVESTMENT BANK	10.0
STOCKLAND TRUST	10.0
TRANSURBAN QUEENSLAND FINANCE PTY LTD	10.0
EUROFIMA	9.8
COMPUTERSHARE US	9.3

## 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	512 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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