iSHARES ESG AUSTRALIAN BOND INDEX FUND

iShares by BLACKROCK®

FUND UPDATE **31 March 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)	-3.65	-5.70	-5.70	-5.38	-0.23	-	0.59
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-3.65	-5.70	-5.70	-5.36	-0.24	-	0.58
Outperformance (Gross of Fees)	0.00	0.00	0.00	-0.02	0.01	-	0.02
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	-3.67	-5.75	-5.75	-5.55	-0.43	-	0.39
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-3.65	-5.70	-5.70	-5.36	-0.24	-	0.58
Outperformance (Net of Fees)	-0.02	-0.05	-0.05	-0.19	-0.19	-	-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.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

Performance Summary

Market Review

The Bloomberg Barclays MSCI SRI/ESG-Weighted A$100M Index (the "Index") returned -3.65% in March. Supranational Sovereigns (-2.64%) were the top performing sub-component followed by Credit (-2.95%), Semi-Govt (-3.58%), and Treasuries (-4.03%).

ESG research by MSCI saw them upgrade QANTAS to 'A' from 'BBB'. The upgrade was led by the companies strong corporate behaviour practices. MSCI note the QANTAS has new internal control mechanisms to monitor its ethics policies. The ethics programs include industry best practices such as anonymous whistleblower systems with legal protection. Further, Qantas leads global peers on corporate governance. The board has an independent majority as well as fully independent pay and audit committees, which is believed to bolster management oversight.

Australian 2-year bond yields rose 0.71% over the month to 1.81%, while 10-year yields increased 0.70% to 2.84%.

The RBA maintained the cash rate target at 0.10%, and to no one's surprise said they were "prepared to be patient" as they asses the inflation outlook. Geopolitical developments saw market volatility increase, pushing global levels of inflation up and prospective GDP growth rates down. Fixed income market volatility, as measured by the MOVE index, reached its highest level in 9 years. The uncertainty about the global outlook was not lost on the RBA as Governor Lowe noted, they have seen a breakout in global energy prices and acknowledged the shock could "extend the period of inflation being above central banks targets. This runs the risk that the low-inflation psychology that has characterized many advanced economies over the past two decades starts to shift." The market expects the RBA to commence hiking the cash rate in June. It also seems the RBA are not committed to seeing two more CPIs before raising the cash rate.

Domestic data continues to deliver strong results. Leading the way has been employment and in March 77,400 new jobs were created. This was 40,400 more than expected and saw the unemployment rate fall 0.2% to 4.0%, its lowest level since 2008. GDP for Q4 was also strong, rising 3.4%, while this was 0.1% shy of expectations GDP y-o-y increased 0.3% to 4.2%. The NAB business survey saw business conditions rise 6 points to 9, while business confidence rose 10 points to 13. The Westpac consumer confidence survey fell 4.2% to 96.6. Private sector credit was in line with expectations, increasing by 0.6% and taking the y-o-y growth rate to 7.9% and Australia's trade balance delivered a A$12.9bn surplus, beating market forecasts by A$3.8bn.

In the U.S., 2-year treasury yields were 0.90% higher at 2.33% while the 10-year yield rose 0.51% to 2.34%.

As expected, the Fed raised rates for the first time since December 2018 bringing the Fed Funds rate up to 0.25-0.50%. The surprise for the market was the hawkish press conference by Chairman Powell on the outlook for rates and was further highlighted in the Statement of Economic projections, which showed Fed Funds forecast to reach 1.9% by the end of 2022 and 2.8% by end of 2023. Fed voters were also busy following the hike talking up the prospect of potential 50bps rate hikes…"to stop unanchored inflation" and this was reconfirmed later in the month as Chairman Powell prepped markets for the possibility of 50bp hikes. The market has 200bps of hikes priced in by year end, i.e., Fed funds at 2.25%. Interestingly, rates cuts are already being priced in for 2024/25.

U.S. Economic data was solid for the most part as non-farm payrolls saw 431,000 new jobs created, while this was 51,000 below expectations, the unemployment rate fell 0.1% to 3.6%. Final GDP for Q4 was in line with consensus, growing by 7.1% annualised. CPI increased by 0.8%, which was in line with market expectations. CPY y-o-y is now at 7.9%. Personal income and personal spending grew by 0.5% and 0.2%, respectively. Consumer confidence fell by 3% to 107.2. %. Existing home sales fell by 7.2% to 6.02 million sales annualised. New home sales were also down, falling 29,000 to 772,000 annualised.

Credit spreads widened 18bps 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 -2.66%, followed by industrials (-3.29%) with utilities (-3.57%) lagging. YTD total A$ issuance across financials reached A$28.7bn, which is A$17.2bn more than at the same period last year, of that, major bank issuance made up A$17.5bnbn. YTD issuances for Non-Financial is A$1.6bn.

Outlook

With a brutal combination of heightened inflation concerns, Russia-Ukraine war, hawkish global central banks, and markets pricing in huge increases in official cash rates there's little wonder that bond volatility has reached its highest level since 2009. Last month saw the second and third highest monthly rise in 2-year and 10-year interest rates, respectively, since 2000. The macroeconomic outlook for Australia remains very positive underpinned by a very low unemployment rate of 4%. We expect this to continue to fall as labour market supply remains tight. Judging by the recent federal budget, supportive fiscal policies will remain in place for the next 12 months supercharging an already strong economic recovery. All this means is that the RBA have work to do in normalizing the cash rate back to a more 'neutral' level, however with eleven RBA hikes already priced in the market is well ahead of the RBA's thinking. We expect the RBA to hike rates in June if not sooner.

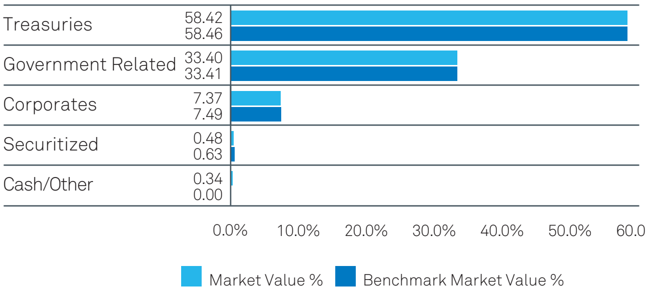
Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	58.4
QUEENSLAND TREASURY CORPORATION	7.9
NEW SOUTH WALES TREASURY CORPORATION	3.5
TREASURY CORPORATION OF VICTORIA	3.3
WESTERN AUSTRALIAN TREASURY CORPORATION	3.1
INTERNATIONAL FINANCE CORP	1.8
LANDWIRTSCHAFTLICHE RENTENBANK	1.7
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.2
BNG BANK NV	1.1
KFW	1.1

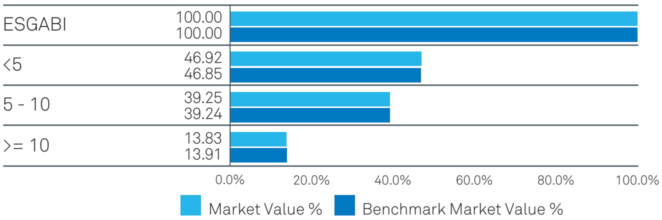
Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.32	5.32	0.00
Duration x spread (%)	1.07	1.15	-0.08
Yield (%)	2.57	2.59	-0.02
Average Coupon (%)	2.72	2.77	-0.06
Average Maturity (Years)	6.10	6.10	0.00
Green Bonds (%)	3.52	1.51	2.01
ESG Score	7.36	7.33	0.03

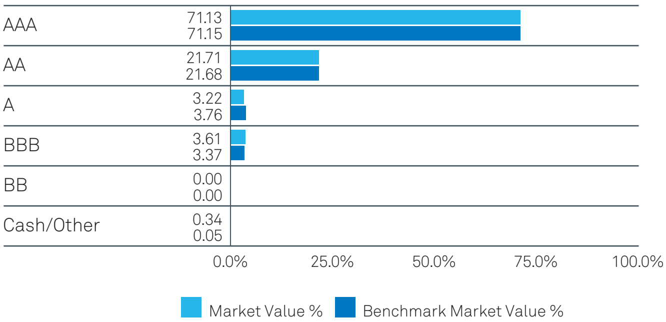
Sector Exposure



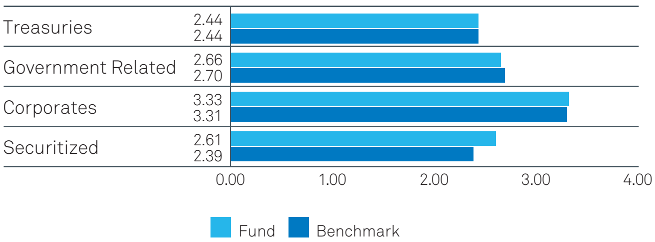
Maturity Exposure



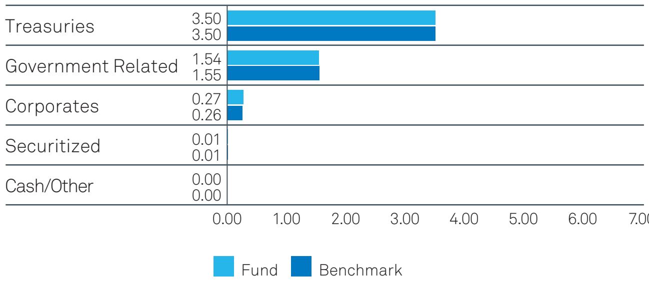
Quality Exposure



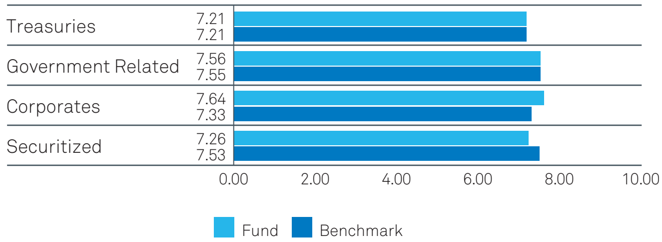
Yield



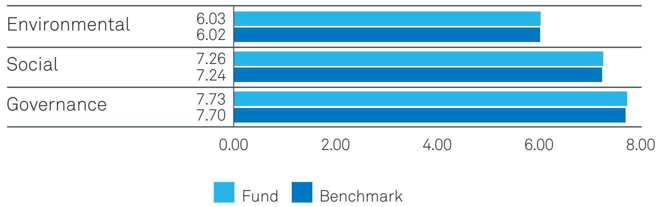
Contribution to Modified Duration



ESG Sector Score



ESG Score Breakdown



Top 10 Issuers held by ESG score

Issuer	ESG Score
INTERNATIONAL FINANCE CORP	10.0
DEXUS FINANCE PTY LTD	10.0
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	10.0
MIRVAC GROUP FINANCE LTD	10.0
NORDIC INVESTMENT BANK	10.0
STOCKLAND TRUST	10.0
TRANSURBAN QUEENSLAND FINANCE PTY LTD	10.0
INTER-AMERICAN DEVELOPMENT BANK	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	495 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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