iSHARES ESG AUSTRALIAN BOND INDEX FUND

FUND UPDATE **31 May 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)	-0.84	-5.84	-7.85	-8.28	-1.63	-	-0.13
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-0.85	-5.85	-7.85	-8.27	-1.64	-	-0.15
Outperformance (Gross of Fees)	0.00	0.00	0.00	-0.01	0.01	-	0.01
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	-0.86	-5.89	-7.93	-8.45	-1.83	-	-0.33
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-0.85	-5.85	-7.85	-8.27	-1.64	-	-0.15
Outperformance (Net of Fees)	-0.02	-0.05	-0.08	-0.18	-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.

Performance Summary

Market Review

The Bloomberg Barclays MSCI SRI/ESG-Weighted A$100M Index (the "Index") returned -0.85% in May. Supranational Sovereigns (-0.23%) were the best performing sub-component followed by Credit (-0.55%), Semi-Govt (-0.89%) and Treasuries (-1.00%)

ESG research by MSCI saw an upgrade of Svenska Handelsbanken AB (SHBA), to 'AAA' from 'AA'. Inclusion of the Corporate Behavior Theme in the Governance assessment was a key contributor to the upgrade decision, as Handelsbanken has strong business ethics policies and practices relative to peers. The bank has an ethics framework that includes detailed policies against bribery and money laundering, as well as board committee oversight. Further, enhanced cybersecurity practices, such as vulnerability testing and regular IT audits, may help preempt potential data breaches, which also supported the upgrade.

Australian 2-year bond yields rose 0.02% over the month to 2.47%, while 10-year yields increased 0.23% to 3.35%.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

The RBA delivered its first rate hike since 2010 lifting the cash rate by 0.25% to 0.35%. While increase was widely expected the size caught the market offside with consensus for a 0.15% rise. In response, the front-end of the money market sold off sharply, the implication being that the RBA were likely to being normalizing the cash rate quickly. The RBA believes a cash rate of around 2.5% would be “neutral” and that’s the level they are likely to target. The RBA remains upbeat on the growth outlook. Strong household balance sheets and high disposable income are expected to drive consumption growth, a large pipeline of activity is expected to underpin dwelling investment while an upswing in non-mining business investment is anticipated. With job vacancies surging and demand for labour strong, the Bank expects the unemployment rate to drift lower. On the flipside there are cost pressures building from a combination of supply side disruptions (global) and RBA Liaison reporting increasing difficulties sourcing domestic labour. The Bank has not locked itself into a pre-determined course of rate hikes, but we sense the risk is skewed in favour of front-loading rate hikes.

Domestic data continues to be positive yet, appears to be showing signs of slowing down. Employment numbers saw 4,000 new jobs created which was well below the 30,000 forecasted. The unemployment rate remained unchanged at 3.9%, while the participation rate fell 0.1% to 66.3%. Wages remain mediocre as the wage price index for Q1 increased by 0.7%. This was 0.1% less than expected and saw the annual wage price index move 0.1% higher to 2.4%. The NAB business survey saw business conditions rise 2 points to 20, while business confidence fell 6 points to 10. On the consumer side, the Westpac consumer confidence survey fell 5.6% to 90.4. Retail sales for April increased by 0.9%, this was 0.1% lower than expected. Australia’s trade balance delivered a A$9.3bn surplus, vs. a forecast of A$8.4bn.

In the U.S., 2-year treasury yields were 0.16% lower at 2.56% while the 10-year yield fell 0.09% to 2.84%.

As was widely expected in the market, the FOMC raised rates by 50bps, bringing the Fed Funds rate to 0.75%-1%. This was their first 50bp hike since 2000. The Fed also announced the start of their runoff program to reduce the size of their balance sheet. As previously suggested by the March minutes, the pace of runoff was confirmed at USD $95 billion/month (USD $60 billion in U.S. Treasuries and USD $35 billion in Agency mortgage-backed securities), with a three-month phase-in period. Looking ahead, the Committee “anticipates that ongoing increases in the target range will be appropriate” underscoring the seriousness of Fed policymakers in getting inflation and inflation expectations under control. This was reconfirmed later in the month with Fed Chair Powell stating that they ‘won’t hesitate’ to tighten policy beyond neutral to achieve price stability and reiterating that they would keep hiking until they see inflation coming down in a “clear and convincing way”.

US economic data was mixed. On the positive side, non-farm payrolls saw 428,000 new jobs created; this was 48,000 more than expected. The unemployment rate remained at 3.6%. Personal income for April increased by 0.4%, 0.1% lower than expected. Personal spending was 0.9% higher, this was 0.1% above consensus. CPI for April was up 0.3%, this down from last month’s rise of 1.2%. CPI y/y fell 0.2% to 8.3%. Retail sales increased by 0.9%, vs. a forecast of 1%. Industrial production rose by 1.1%, which was 0.6% higher than expected. On the negative side we saw Q1 preliminary GDP fall to -1.5% annualised, vs. a forecast of -1.3%. Housing was soft, with new home sales falling 16.6% to 591,000 annualsied. Housing starts also fell, albeit by just 0.2%, and existing home sales dopped by 2.4% t0 5.61m annualised. The University of Michigan Survey dropped 6.1 points, falling to 59.1.

Credit spreads widened 9bps 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 -0.52%, followed by utilities (-0.68%) with industrials (-0.73%) lagging. YTD total A$ issuance across financials reached A$46.8bn, which is A$29.8bn more than at the same period last year, of that, major bank issuance made up A$28.4bn. YTD issuances for non-Financial is A$3.4bn.

Outlook

With the RBA kicking off the first hiking cycle in over a decade, we expect the Bank to continue hiking rates for the remainder of 2022. Domestic data has been ‘mixed’ with weaker consumer confidence, Wage Price Index (WPI), employment, and capex. Offsetting this has been stronger retail sales, commodity prices and trade data. There is, however, decent economic momentum in Australia, with significant household saving buffers, and continued fiscal support. We also see evidence of higher wage and price pressures building. All these factors are going to keep the RBA in hiking mode with the objective of getting the cash rate back to between 2-2.5%, their estimated ‘neutral rate’, before they feel somewhat more comfortable about the inflation/growth trade off. This was confirmed at the recent June meeting where the RBA again hiked by 50bps, and we think there are more 50bp hikes in the pipeline. The uncertainty going into this hiking cycle is how consumers, mortgagees, and businesses will respond to sharply higher interest rates, albeit still low in a historical context. The bond market has already aggressively front-loaded RBA rate hikes with expectations for an RBA cash rate of ~3% by Dec ‘22.

Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	58.3
QUEENSLAND TREASURY CORPORATION	7.8
NEW SOUTH WALES TREASURY CORPORATION	3.4
TREASURY CORPORATION OF VICTORIA	3.4
WESTERN AUSTRALIAN TREASURY CORPORATION	3.0
INTERNATIONAL FINANCE CORP	1.8
LANDWIRTSCHAFTLICHE RENTENBANK	1.7
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.1
KFW	1.1
BNG BANK NV	1.1

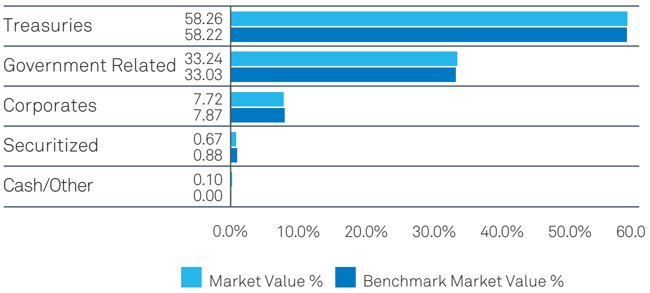
Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.19	5.18	0.01
Duration x spread (%)	1.18	1.26	-0.08
Yield (%)	3.17	3.19	-0.02
Average Coupon (%)	2.73	2.77	-0.04
Average Maturity (Years)	5.96	5.95	0.01
Green Bonds (%)	3.53	1.50	2.03
ESG Score	7.38	7.34	0.03

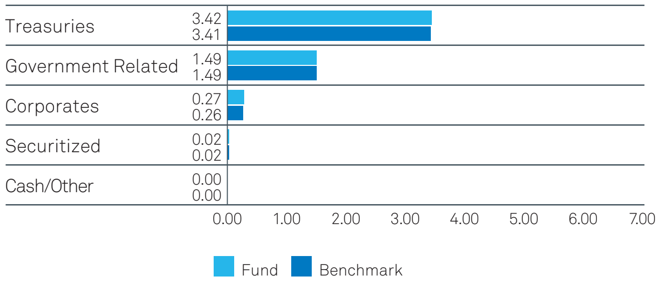
Top 10 Issuers held by ESG score

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	10.0
COMPUTERSHARE US	10.0

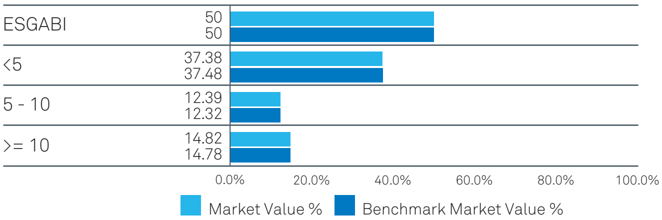
Sector Exposure



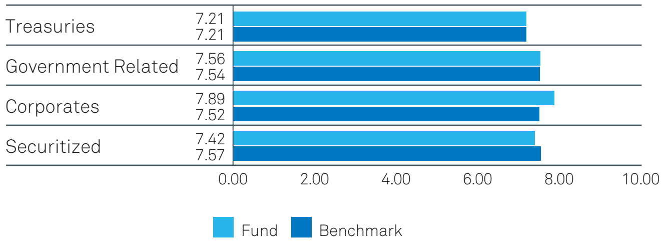
Contribution to Modified Duration



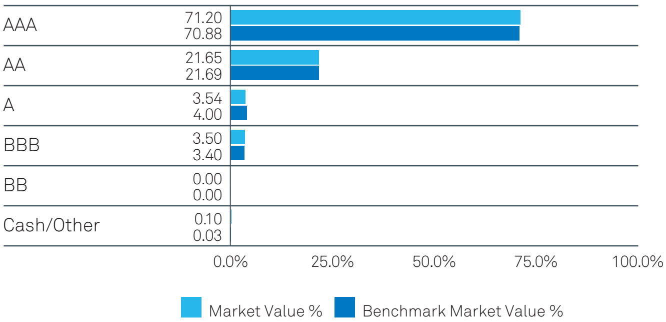
Maturity Exposure



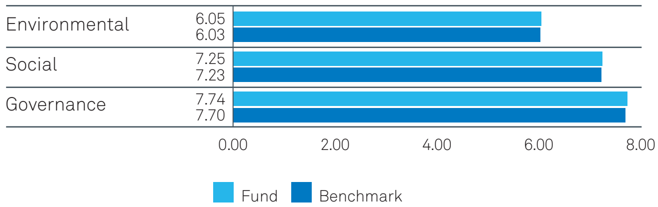
ESG Sector Score



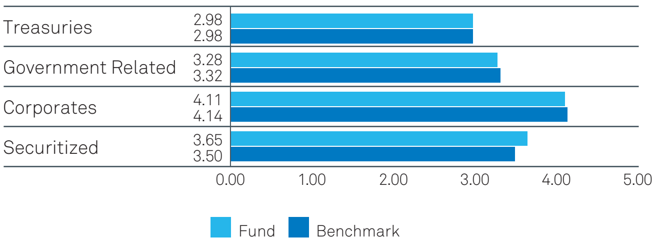
Quality Exposure



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	494 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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