

# iSHARES ESG AUSTRALIAN BOND INDEX FUND



FUND UPDATE

30 June 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)	-1.39	-3.63	-9.13	-10.16	-2.43	-	-0.54
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-1.40	-3.64	-9.13	-10.15	-2.44	-	-0.55
Outperformance (Gross of Fees)	0.01	0.01	0.00	-0.01	0.01	-	0.02
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	-1.41	-3.68	-9.22	-10.34	-2.63	-	-0.73
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-1.40	-3.64	-9.13	-10.15	-2.44	-	-0.55
Outperformance (Net of Fees)	-0.01	-0.04	-0.09	-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.

## Performance Summary

### Market Review

The Bloomberg Barclays MSCI SRI/ESG-Weighted A\$100M Index (the "Index") returned -1.40% in June. Supranational Sovereigns (-1.11%) were the best performing sub-component followed by Credit (-1.23%), Treasuries (-1.32%) and Semi-Govt (-1.86%).

ESG research by MSCI saw an upgrade of Ampol Limited (ALD) to 'AA' from 'A'. This was attributed to improvements in Ampol's GHG performance and strategy. Scope 1 and 2 GHG emissions intensity reduced at a compound annual rate of 5% between 2019-21 and averaged one-fifth of the peer average as of June 2022. Additionally, measures on operational emissions reductions and on products sold to customers have accounted for 10% of the short-term executive remuneration scorecard since FY2022, which is in line with leading industry peers.

Australian 2-year bond yields rose 0.16% over the month to 2.63%, while 10-year yields increased 0.31% to 3.66%.

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The RBA surprised the market for a second month in a row hiking the official cash rate by 50bps to 0.85%. The biggest rise in 20yrs and is confirmation of how the world has changed. Market consensus was evenly split between a 25bp or 40bp increase. Governor Lowe's statement pointed to the motivation for an outsized hike being the "very low level of interest rates" in the context of the current inflation pressures. The RBA's guidance going forward was also hawkish. By front loading rate rises the Bank can firmly establish its inflation fighting commitment. For the time being the Australian economy appears to be resilient which is likely giving support for bigger moves in the policy rate over the months ahead.

Domestic data was strong in June as Q1 GDP rose by 0.8%. This was 0.1% better than expected and saw GDP y/y increase by 3.3%, which was 0.3% higher than forecasted. Employment numbers were strong as 60,600 new jobs were created, this was well ahead of the forecasted 25,000. The unemployment rate remained at 3.9% as the participation rate increased 0.4% to 66.7%. May retail sales grew by 0.9%, beating market expectations by 0.5%. Private sector credit increased by 0.8%, vs. a forecast of 0.6%. Private sector credit y/y is now +9%, 0.4% higher than forecasted. Australia's trade balance delivered a A\$10.5bn surplus, A\$1.5bn higher than expected. On the downside the NAB business survey saw both conditions and confidence fall 4 points to 16 and 10 points, respectively. The Westpac consumer confidence survey dipped 4.5% to 86.4. While the Australia Corelogic monthly median city value index fell by -0.8%, this was 0.5% lower than last month's -0.3%.

In the U.S., 2-year treasury yields were 0.40% higher at 2.96% while the 10-year yield rose 0.17% to 3.01%.

Following the upside inflation surprise this month, the FOMC lifted the fed funds rate by 0.75% to a target range of 1.50% to 1.75%. This was 25bps more than the 50bps that had been previously telegraphed. In doing so the FOMC signaled clearly, they are determined to bring inflation back to the 2.0% target as quickly as possible. During the post-meeting press conference, Chair Powell reiterated the importance of containing inflation expectations. He also continued to say he wanted to see "compelling evidence inflation is coming down." He said that 75bps rate hikes are "unusually large", implying 100bps rate rises seem unlikely. However, he did say policy adjustments would be made on a meeting-by-meeting decision. Markets are expecting another 75bps rise at their July meeting and expect the fed funds rate to be at around 3.00% by year end.

US economic data was mixed with some numbers starting to moderate. Importantly, employment numbers remain strong as non-farm payrolls saw 390,000 new jobs created, this was 72,000 better than expected. The unemployment rate remained at 3.6% as the participation rate increased 0.1% to 62.3%. Final GDP for Q1 fell -1.6%, 0.1% lower than expected. CPI for May rose by 1%, this was 0.3% higher than forecasted. CPI y/y is now 0.3% higher at 8.6%. Personal consumption for Q1 increased by 1.8%, vs. a forecast of 3.1%. Consumer confidence fell 7.2% to a level of 98.7. New home sales were up 10.7% to 696,000 annualised, while existing home sales fall 3.4% to 5.41m annualised. The ISM manufacturing index scored moved 0.7 of a point higher to 56.1. The ISM services index fell 1.2 points to 55.9.

Credit spreads widened 21bps 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 -1.13%, followed by industrials (-1.42%) with utilities (-1.84%) lagging. YTD total A\$ issuance across financials reached A\$49.5bn, which is A\$28.5bn more than at the same period last year, of that, major bank issuance made up A\$29.0bn. YTD issuances for non-Financial is A\$3.5bn.

## Outlook

Heightened volatility continued to dominate price action across bond markets over June. This was driven by continued inflation fears, higher than expected rate rises by central banks and concerns of slowing growth and rising recession fears, all of which resulted in a sixth consecutive month of negative returns for developed market bonds. In Australia the AusBond Composite Index delivered its worst 1st half of the year return since the index's inception. Central banks have played their part with the RBA no exception as they attempted to out-maneuver markets by delivering a 50bps rate rise in June, followed up with an additional 50bps in July. Governor Lowe has also committed to keep tightening monetary policy for as long as inflation persists. Despite the difficulties across financial markets, economic data continues to show resilience with growth for Q1 coming in better than expected, retail sales still going well and importantly employment numbers continue to come in better than expected as the unemployment rate remains below 4%. With inflation not expected to peak until the end of this year, we will continue to see the RBA aggressively front-load rate hikes with expectations for an RBA cash rate of ~3% by Dec '22.

### Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	54.5
QUEENSLAND TREASURY CORPORATION	7.8
NEW SOUTH WALES TREASURY CORPORATION	5.5
TREASURY CORPORATION OF VICTORIA	5.4
WESTERN AUSTRALIAN TREASURY CORPORATION	3.0
INTERNATIONAL FINANCE CORP	1.7
LANDWIRTSCHAFTLICHE RENTENBANK	1.7
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.4
EUROPEAN INVESTMENT BANK	1.2
BNG BANK NV	1.1

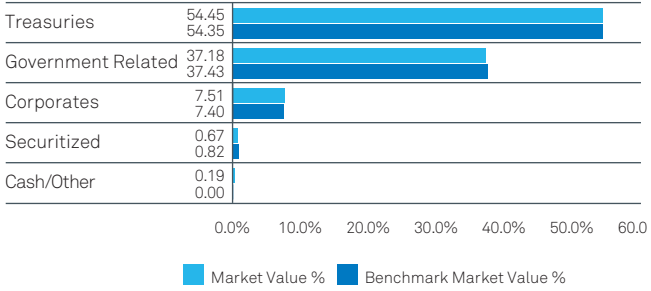
### Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.14	5.13	0.00
Duration x spread	1.57	1.63	-0.06
Yield	3.56	3.59	-0.03
Average Coupon (%)	2.73	2.76	-0.04
Average Maturity (Years)	5.92	5.92	0.01
Green Bonds	3.66	1.51	2.15
ESG Score	7.42	7.38	0.04

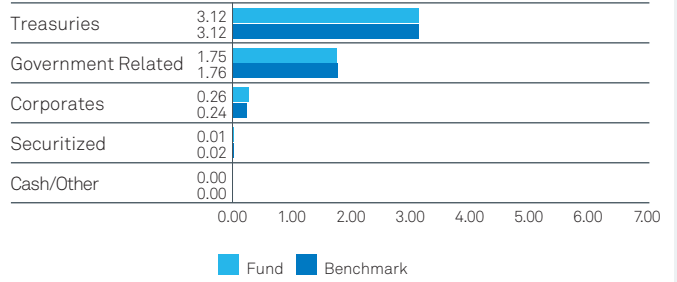
### Top 10 Issuers held by ESG score

Issuer	ESG Score
INTER-AMERICAN DEVELOPMENT BANK	10.0
DEXUS FINANCE PTY LTD	10.0
GPT RE LTD	10.0
GPT WHOLESALE SHOPPING CENTRE FUND NO 1	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
INTERNATIONAL FINANCE CORP	10.0

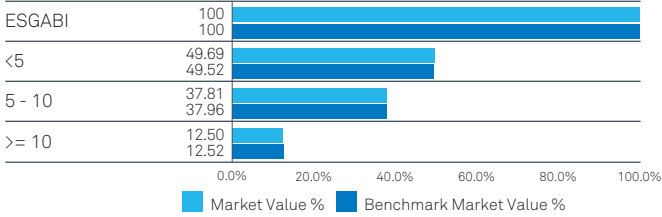
### Sector Exposure



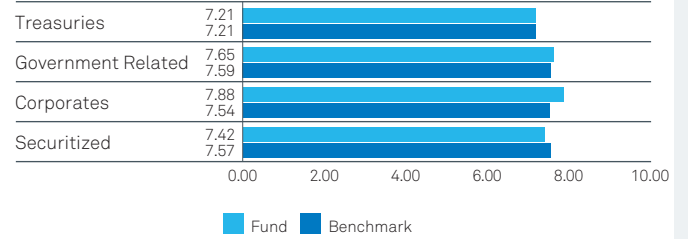
### Contribution to Modified Duration



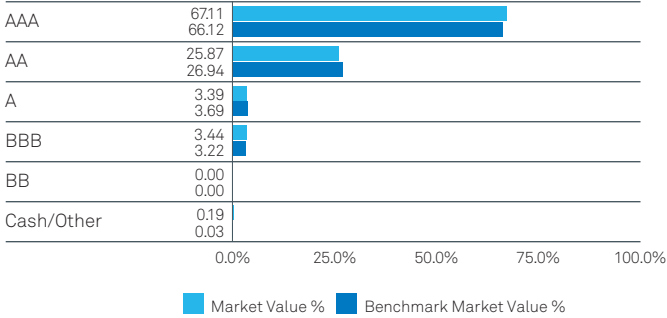
### Maturity Exposure



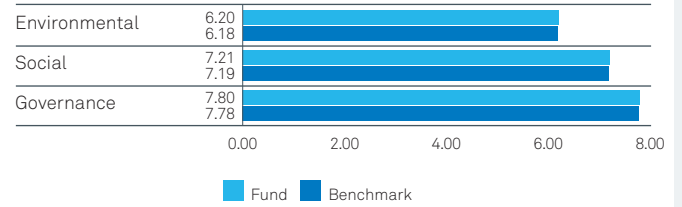
### ESG Sector Score



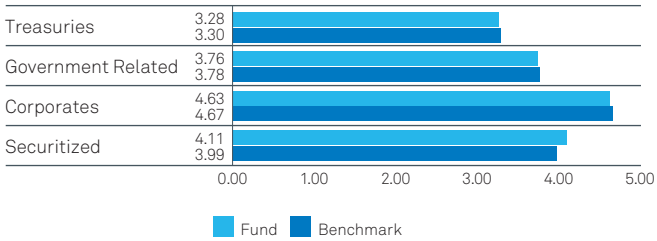
### Quality Exposure



### 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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