

iSHARES ESG AUSTRALIAN BOND INDEX FUND



FUND UPDATE

31 July 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)	3.23	0.93	-6.20	-8.83	-1.71	-	0.38
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	3.21	0.91	-6.21	-8.83	-1.72	-	0.37
Outperformance (Gross of Fees)	0.01	0.02	0.01	-0.01	0.01	-	0.02
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	3.21	0.88	-6.31	-9.02	-1.91	-	0.18
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	3.21	0.91	-6.21	-8.83	-1.72	-	0.37
Outperformance (Net of Fees)	-0.01	-0.03	-0.10	-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 +3.21% in July. Semi-Government were the best performing sub-component (3.59%), followed up Treasuries (3.51%), Credit (2.32%) and Supranational Sovereigns (2.20%).

ESG research by MSCI saw a downgrade of Commonwealth Bank of Australia (CBA) to 'A' from 'AA'. The recent reassessment of CBA indicated a decline in the company's ESG performance relative to its ESG industry peers contributing to the downgrade as of July 2022. While CBA's loan portfolio has a relatively low exposure (~88% of total portfolio in FY 2021) to environmentally intensive industries, the bank has integrated enhanced environmental due diligence processes in its credit risk management framework. However, CBA continues to face criticism over funding fossil fuel-related projects.

Australian 2-year bond yields fell 0.20% over the month to 2.43%, while 10-year yields decreased 0.60% to 3.06%.

The RBA raised the cash rate target by 50bps to 1.35%. While this was expected, and in line with Governor Lowe's recent guidance, the language regarding future hikes is shifting with less clarity around the pace of tightening and at what level the RBA might consider pausing. The RBA will continue to be guided by the incoming data and their assessment of the outlook, but right now they have a significant problem with high inflation and that needs to be addressed with haste.

The underlying fundamentals of the Australian economy remain relatively sound. Employment data was better than expected with 88,400 new jobs were created. The unemployment rate fell 0.3% to 3.5%, a level not seen since the mid-1970's. Headline CPI for Q2 rose 1.8% and in annual terms is running at 6.1%. The NAB Business Survey for June was weaker as business conditions fell by 3 points to 13, while business confidence was down 5 points to 1. Consumer

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sentiment also fell for the seventh consecutive month. Pleasingly, Australia's trade balance delivered A\$16 bn surplus.

In the U.S., 2-year treasury yields were 0.07% lower at 2.88% while the 10-year yield fell 0.36% to 2.65%.

The Fed raised rates by 0.75%, in line with market expectations. Fed Chair Jerome Powell noted in his commentary that the fed funds is now approaching the 'neutral rate' (2.5%), but they were not done lifting rates just yet. Expectations are that the fed needs to get to restrictive policy to ensure inflation falls in a sustainable way. Powell also emphasized that the US economy was slowing but inflation was still too high.

US economic data was mixed. Employment data was strong as non-farm payrolls saw 372,000 new jobs created. The unemployment rate was unchanged at 3.6%. Advanced annualised GDP for Q2 fell by -0.9%, vs. a forecast of +0.4%. CPI surprised on the upside, rising 1.3% vs. a forecast of 1.1%. This saw CPI YoY move 0.5% higher to 9.1. Personal income and personal spending for June were both 0.1% higher than expected, increasing by 0.6% and 1.1%, respectively. Retail sales were up 1%, 0.1% better than expected. Consumer confidence fell 3 pts to 95.7.

Credit spreads narrowed 8bps on average over the month. All sectors recorded positive returns as both yields fell and spreads narrowed. Utilities were the best performing sector, returning 2.72%, followed by industrials (2.70%) with financials (2.04%) lagging. YTD total A\$ issuance across financials reached A\$59.3bn, which is A\$37.1bn more than at the same period last year, of that, major bank issuance made up A\$31.8bn. YTD issuances for non-Financial is A\$3.8bn.

Outlook

Our overall our view remains that after a strong rebound in growth during the first half of the year, growth will be slow over the next 12-18 months. Cost of living pressures and a rapid increase in the cash rate will weigh on households and consumption. Interest rate sensitive sectors of the economy are already responding to rate hikes but the labour market is the tightest it has been in 50 years and we expect some further tightening in the near term. Inflation remains well above the 2-3% band and this will be a concern for the RBA. We expect a fourth straight increase of 50bps at the September RBA meeting and subsequent hikes to bring the cash rate up to 3%-3.15% by end 2022. We see that as bordering on the restrictive side of neutral (2.5-3.0%) and think further hikes in early 2023 cannot be ruled.

Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	54.3
QUEENSLAND TREASURY CORPORATION	7.3
NEW SOUTH WALES TREASURY CORPORATION	6.2
TREASURY CORPORATION OF VICTORIA	5.9
WESTERN AUSTRALIAN TREASURY CORPORATION	2.9
INTERNATIONAL FINANCE CORP	1.7
LANDWIRTSCHAFTLICHE RENTENBANK	1.6
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.4
EUROPEAN INVESTMENT BANK	1.2
BNG BANK NV	1.1

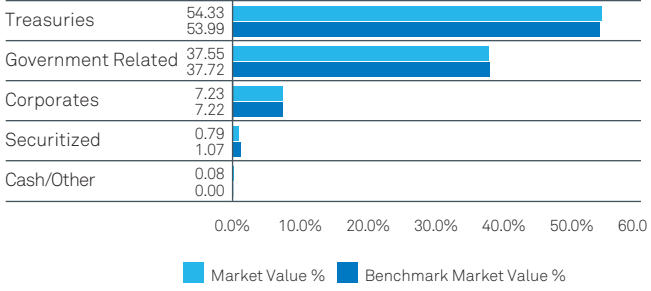
Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.31	5.32	-0.01
Duration x spread	1.50	1.58	-0.08
Yield	3.11	3.14	-0.03
Average Coupon (%)	2.67	2.70	-0.03
Average Maturity (Years)	6.10	6.10	-0.01
Green Bonds	3.64	1.58	2.07
ESG Score	7.41	7.37	0.04

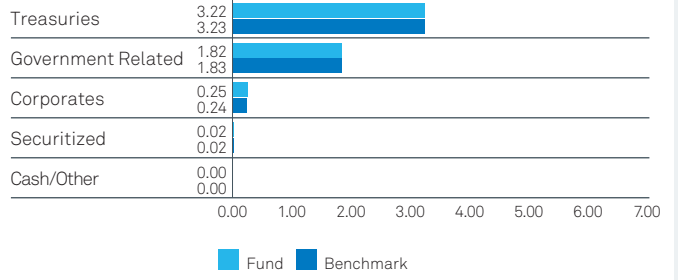
Top 10 Issuers held by ESG score

Issuer	ESG Score
DEXUS FINANCE PTY LTD	10.0
GPT RE LTD	10.0
GPT WHOLESALE SHOPPING CENTRE FUND NO 1	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

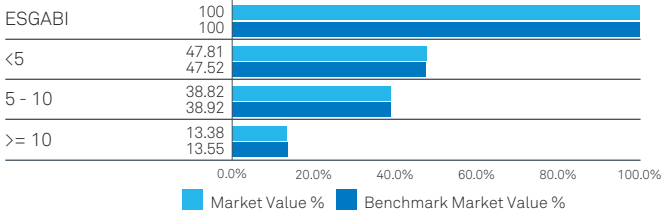
Sector Exposure



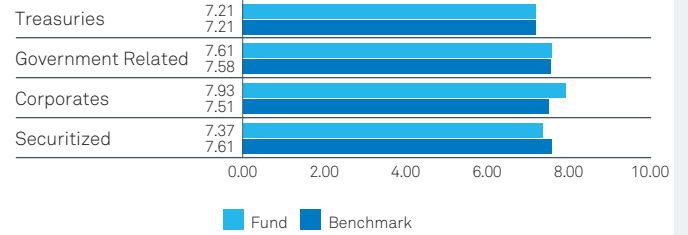
Contribution to Modified Duration



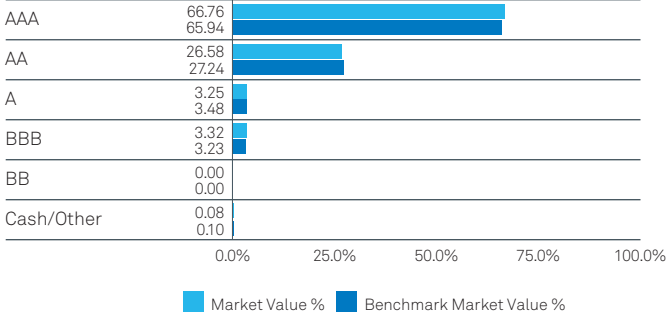
Maturity Exposure



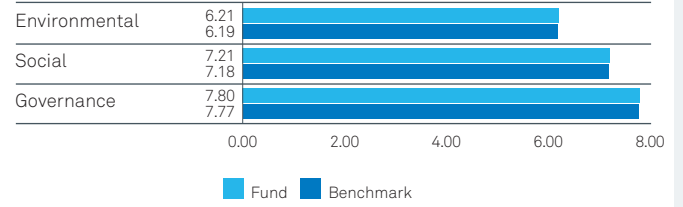
ESG Sector Score



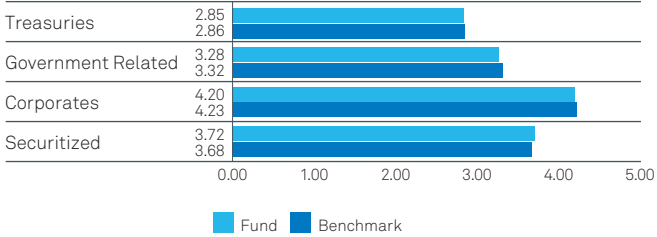
Quality Exposure



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	510 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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