

# iSHARES ESG AUSTRALIAN BOND INDEX FUND

iShares®  
by BLACKROCK®

FUND UPDATE

31 August 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)	-2.48	-0.73	-8.52	-11.20	-3.01		-0.33
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-2.46	-0.73	-8.52	-11.17	-3.01		-0.34
Outperformance (Gross of Fees)	-0.02	0.00	0.00	-0.03	0.00		0.01
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	-2.50	-0.78	-8.65	-11.38	-3.21		-0.53
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-2.46	-0.73	-8.52	-11.17	-3.01		-0.34
Outperformance (Net of Fees)	-0.03	-0.05	-0.12	-0.21	-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 -2.46% in August. Credit was the best performing sub-component (-1.33%), followed up Supranational Sovereigns (-1.37%), Treasury (-2.74%) and Semi-Government (-2.80%).

ESG research by MSCI saw a ratings downgrade of SGSP (Australia) Assets Pty Ltd (SGCC) to BBB from A. This was due to a reassessment of the company's ESG performance relative to its ESG industry peers. It was found that SGSP lags industry peers in managing talent-related risks. MSCI found no evidence of procedures to address employee grievances, and of performance appraisals to provide feedback to employees.

Australian 2-year bond yields increased 0.56% over the month to 2.99%, while 10-year yields rose 0.54% to 3.60%.

The RBA's August decision was in line with expectations as the Board raised the cash rate target 0.50% to 1.85%. This was the third consecutive 0.50% hike and fourth hike in a row. Accompanying the message was a slightly less hawkish RBA with a subtle shift in that there could be a slowing of the pace of rate hikes as the Bank looks to strike a balance between returning inflation to target, "while keeping the economy on an even keel" as they normalize monetary policy. Having said this, Governor Lowe indicated that there will be more hikes to come but the central bank "is not on a pre-set path" and will be guided by data.

Australian economic data was mixed. Whilst the unemployment rate decreased to 3.4% (from 3.5%), employment numbers saw by 40,900 jobs lost. This was well below consensus estimates (+25,000). The NAB business survey saw both business conditions and confidence rise. Business conditions increased by 7 points to 20, while business confidence rose by 6 points to 7. Retail sales increased 1.3%, well above the 0.3% forecast. However, consumer sentiment fell for the eighth consecutive month, dropping to 3% to 81.2. Building approvals

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continue to remain volatile, falling -17.2%, well below expectations. Pleasingly, Australia's trade balance delivered A\$17.7bn surplus.

In the U.S., 2-year treasury yields were 0.61% higher at 3.49% while the 10-year yield increased 0.54% to 3.19%.

Jerome Powell's long-awaited speech at Jackson Hole maintained a hawkish rhetoric. Powell's remarks were clear in demonstrating his commitment to tightening financial conditions. While he acknowledged the slowdown in inflation in July was welcome, it was insufficient to justify a change in strategy and stated that the "overarching focus right now is to bring inflation back down to our 2 percent goal. Price stability is the responsibility of the Federal Reserve and serves as the bedrock of our economy."

US economic data was mixed, with some indication of a slowdown. Preliminary annualised Q2 GDP fell -0.6%, 0.1% above consensus. While employment remained strong, with non-farm payrolls data seeing 528,000 new jobs created, well ahead of the expected +250,000. This saw the unemployment rate fall 0.1% to 3.5%. CPI for July was flat, while PPI fell by -0.5%, down from +1.1% the prior month. Although both personal income and personal spending increased (0.2% and 0.1%, respectively), they were below consensus (0.6% and 0.2%). New home sales fell 12.6% to 511,000 annualised. Consumer sentiment was higher, increasing 7.1% to 103.2.

Credit spreads narrowed 2bps on average over the month. Despite spreads narrowing marginally, all sectors recorded negative returns as yields increased. Financials were the best performing sector, returning -1.21%, followed by industrials (-1.53%) with utilities (-1.57%) lagging. YTD total issuance across financials reached A\$75.2bn, which is A\$43.3bn more than at the same period last year, of that, major bank issuance made up A\$40.7bn. YTD issuances for non-Financial is A\$4.01bn.

## Outlook

Our overall our view remains that after a strong rebound in GDP growth during the first half of the year, growth will slow over the next 12-18 months. Cost of living pressures and a rapid increase in the cash rate will begin to 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. As expected, we received a fourth straight increase of 50bps at the September RBA meeting accompanied by a less hawkish sentiment with Governor Lowe recognizing "the case for a slower pace of increase in interest rates becomes stronger as the level of the cash rate rise". We expect subsequent hikes over the coming months to bring the cash rate up to 3%-3.15% by end 2022 and while we see that as bordering on the restrictive side of neutral (2.5-3.0%), we think further hikes in early 2023 cannot be ruled out.

### Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	53.6
QUEENSLAND TREASURY CORPORATION	7.1
NEW SOUTH WALES TREASURY CORPORATION	6.5
TREASURY CORPORATION OF VICTORIA	6.3
WESTERN AUSTRALIAN TREASURY CORPORATION	3.0
LANDWIRTSCHAFTLICHE RENTENBANK	1.6
INTERNATIONAL FINANCE CORP	1.5
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.5
BNG BANK NV	1.1
EUROPEAN INVESTMENT BANK	1.1

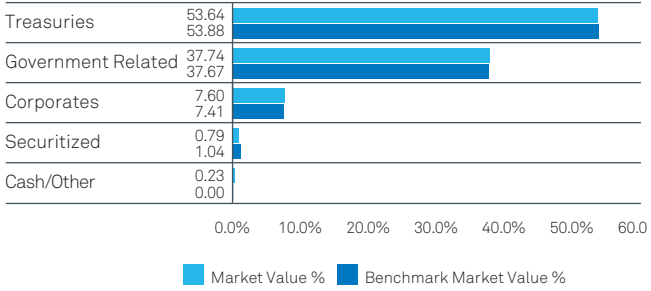
### Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.19	5.20	-0.01
Duration x spread	1.55	1.63	-0.08
Yield	3.64	3.67	-0.03
Average Coupon (%)	2.67	2.70	-0.04
Average Maturity (Years)	5.99	6.01	-0.02
Green Bonds	3.73	1.62	2.10
ESG Score	7.40	7.37	0.03

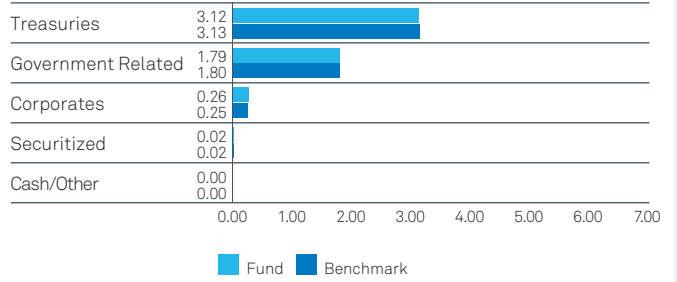
### Top 10 Issuers held by ESG score

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 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
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	10.0

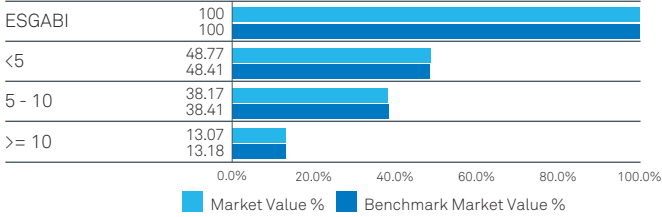
### Sector Exposure



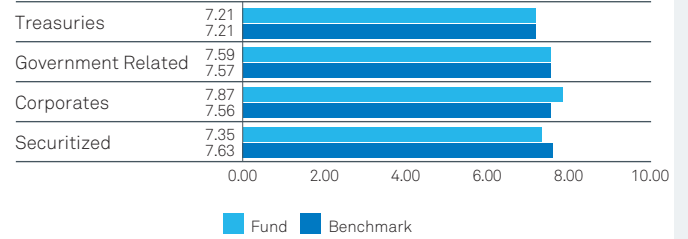
### Contribution to Modified Duration



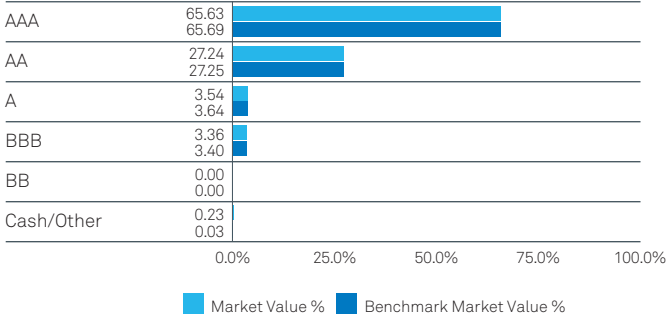
### Maturity Exposure



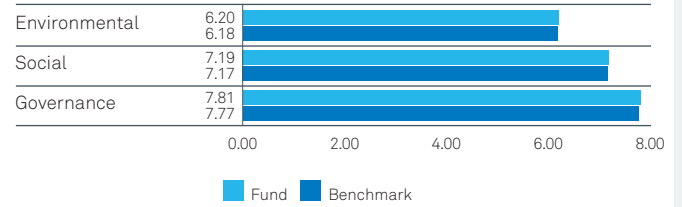
### ESG Sector Score



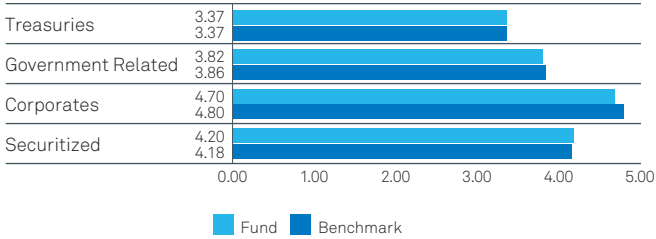
### Quality Exposure



### 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	507 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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