

iSHARES ESG AUSTRALIAN BOND INDEX FUND



FUND UPDATE

30 September 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)	-1.34	-0.68	-9.75	-11.07	-3.29	-	-0.69
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-1.34	-0.68	-9.75	-11.05	-3.29	-	-0.70
Outperformance (Gross of Fees)	0.00	-0.01	0.00	-0.02	0.00	-	0.01
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	-1.36	-0.73	-9.89	-11.25	-3.48	-	-0.88
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	-1.34	-0.68	-9.75	-11.05	-3.29	-	-0.70
Outperformance (Net of Fees)	-0.02	-0.06	-0.14	-0.21	-0.19	-	-0.19

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 -1.34% in September. Credit was the best performing sub-component (-0.99%), followed up Supranational Sovereigns (-1.09%), Treasury (-1.41%) and Semi-Government (-1.45%).

ESG research by MSCI saw a ratings upgrade of Coca-Cola Company (KO) from AA to AAA. MSCI noted this was due to a revised evaluation of exposure to product-safety and quality risks which led to a decrease in The Coca-Cola Company's (TCCC) risk exposure. TCCC continues to lead peers in measures to tackle regulatory risks tied to potential misleading marketing, having a detailed code backed by regular audits. The upgrade also reflects MSCI's reassessment of controversies related to corporate behaviour.

Australian 2-year bond yields increased 0.35% over the month to 3.34%, and 10-year yields rose 0.35% to 3.94%.

The RBA's September decision was in line with expectations as the Board raised the cash rate target 0.50% to 2.35%. This was the fourth consecutive 0.50% hike and fifth hike in a row, taking the cash rate to its highest level since 2015. The accompanying statement was interpreted by the market as slightly dovish with the RBA acknowledging that the outlook for global growth had deteriorated and that there are widespread upward pressures on prices from strong demand, a tight labour market and capacity constraints in some sectors. RBA Governor Philip Lowe noted that the bank will continue to be "guided by the incoming data and evolving outlook for inflation and the labour market".

The Australian economy performed well in Q2, with GDP growing by 0.9% over the quarter. This was the third consecutive quarter of economic growth, with annual GDP increasing to 3.6%. The August labour force results were strong across the board as 33,500 new jobs were created in August, which was only slightly behind market expectations of 35,000. Although

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the unemployment rate rose 0.1% to 3.5%, that could be attributed to the 0.2% increase in the participation rate, as it rose to 66.6%. The NAB business survey saw business confidence increase 3 points to 10, while conditions remained steady at 20 points. Consumer confidence increased for the first time since November 2021, with the Westpac survey rising 3.9% to 84.4. Retail sales increased by 0.6%, this was 0.2% higher than expected. Private sector credit increased 0.8%, which was 0.2% above consensus and is now up 9.3% over the year.

In the U.S., 2-year treasury yields were 0.71% higher at 4.20% while the 10-year yield increased 0.58% to 3.78%.

The FOMC raised rates by 0.75%, taking the target range to 3.0-3.25%. As expected, much of Chair Powell's post meeting communication was in line with his hawkish messaging at Jackson Hole. The FOMC's "overarching focus is using [their] tools to bring inflation down to [a] 2% goal and keep long-run expectations anchored". Powell acknowledged that this may lead to a "sustained period of below trend growth" and we will "very likely see some softening of labor market conditions".

US economic data was mixed in September, with some indications of a slowdown as concerns over persistent inflation and a tight labour market remain strong. Final GDP for Q2 was in-line with expectations at -0.6% annualized. Headline CPI printed 0.12% m/m which was slightly better than expected and took CPI y/y to 8.3%. However, both shelter and food costs continued to rise strongly which saw Core CPI increase 0.6% m/m (6.3% y/y). Non-farm payrolls saw 315,000 new jobs created, this was above the forecast of 298,000. Despite the gain, the unemployment rate rose 0.2% to 3.7% as the participation rate increased 0.3% to 62.4%. Housing supply appears to be slowing with existing home sales falling 0.4% to 4.8m annualised. Nonetheless, consumer confidence rose by 4.7 points to 108 and personal spending was 0.2% higher than forecast at 0.4%. Personal income increased by 0.3%. New home sales rebounded significantly by 28.8% compared to last month's -12.6% fall.

Credit spreads widened 11bps on average over the month and all sectors recorded negative returns as yields increased. Financials were the best performing sector, returning -0.95%, followed by utilities (-1.16%) with industrials (-1.25%) lagging. YTD total issuance across financials reached A\$79.9bn, which is A\$41bn more than at the same period last year, of that, major bank issuance made up A\$43.2bn. YTD issuances for non-Financial is A\$4.8bn.

Outlook

Rising inflation remains the key theme and concern for policy makers and markets as they digest the realities of inflation persisting at more elevated levels for longer. While the RBA was slow to commence their hiking cycle, they have now course corrected and quickly made-up ground, hiking to 2.60% from 0.10% in six months (including Octobers 25bps rise). While historically, this is a significant upwards move, there remains a lot more to be done even with the global economic outlook deteriorating. With markets pricing in a cash rate of 3% by year end and a terminal rate of ~4% by the end of 2023, we expect the RBA to continue with 25bps rate rise increments and believe it would not be unreasonable for the RBA to raise rates again in November before pausing in December to allow the lags of monetary policy tightening effects to further flow through to the underlying economy. Having said this, we expect wage growth to pick up by the end of this year and stay high through 2023, while also anticipating a strong Q3 core CPI print as headline inflation will remain high through Q4.

Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	53.8
QUEENSLAND TREASURY CORPORATION	7.1
NEW SOUTH WALES TREASURY CORPORATION	6.7
TREASURY CORPORATION OF VICTORIA	6.4
WESTERN AUSTRALIAN TREASURY CORPORATION	3.0
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.6
LANDWIRTSCHAFTLICHE RENTENBANK	1.6
INTERNATIONAL FINANCE CORP	1.5
BNG BANK NV	1.1
EUROPEAN INVESTMENT BANK	1.1

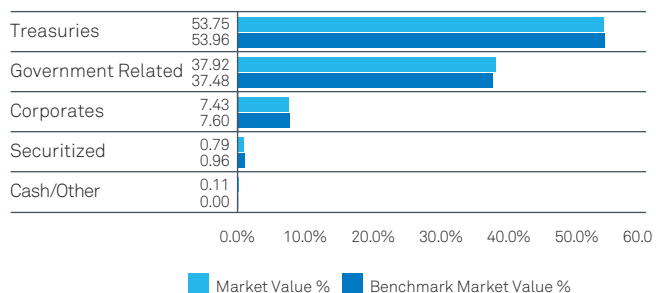
Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.12	5.12	0.00
Duration x spread	1.63	1.76	-0.12
Yield	4.00	4.04	-0.03
Average Coupon (%)	2.66	2.71	-0.05
Average Maturity (Years)	5.93	5.94	-0.02
Green Bonds	3.57	1.59	1.98
ESG Score	7.41	7.37	0.03

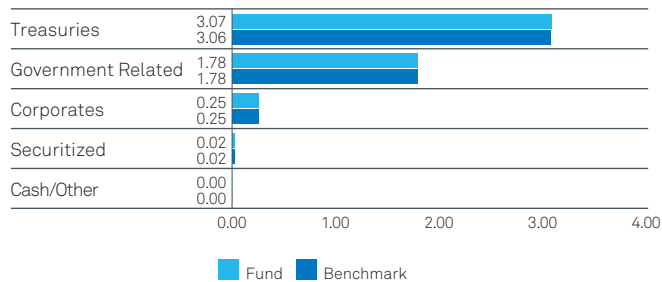
Top 10 Issuers held by ESG score

Issuer	ESG Score
INTERNATIONAL FINANCE CORP	10.0
CNH INDUSTRIAL CAPITAL AUSTRALIA PTY LTD	10.0
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
MIRVAC GROUP FINANCE LTD	10.0
NORDIC INVESTMENT BANK	10.0
STOCKLAND TRUST	10.0

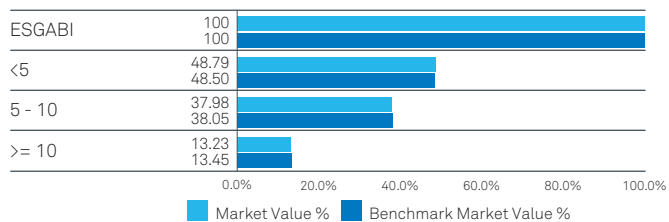
Sector Exposure



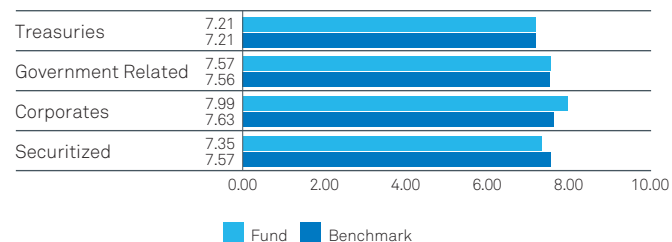
Contribution to Modified Duration



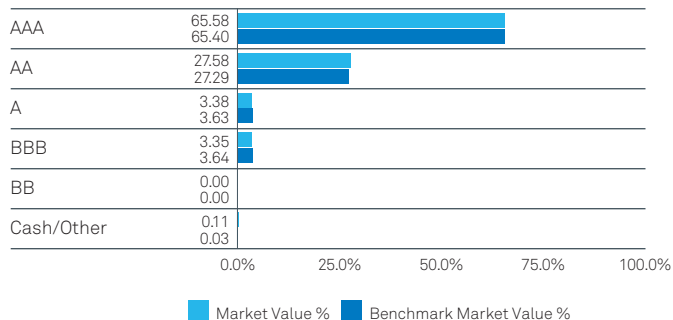
Maturity Exposure



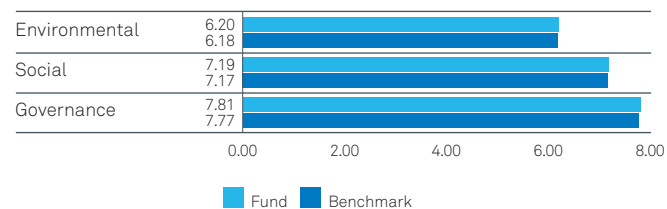
ESG Sector Score



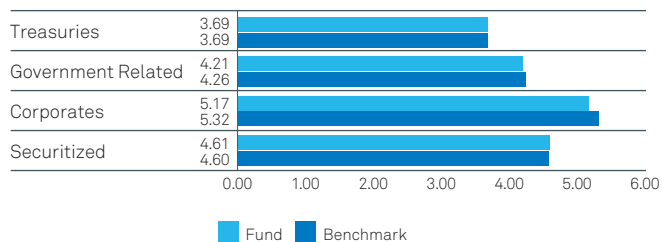
Quality Exposure



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	500 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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