

iSHARES ESG AUSTRALIAN BOND INDEX FUND

iShares®
by BLACKROCK®

FUND UPDATE

31 December 2021

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)	0.07	-1.46	-2.87	-2.87	-	-	2.69
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	0.09	-1.44	-2.84	-2.84	-	-	2.67
Outperformance (Gross of Fees)	-0.01	-0.02	-0.03	-0.03	-	-	0.02
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	0.06	-1.51	-3.05	-3.05	-	-	2.49
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	0.09	-1.44	-2.84	-2.84	-	-	2.67
Outperformance (Net of Fees)	-0.03	-0.07	-0.21	-0.21	-	-	-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 0.09% in December. Semi-Govt (0.29%) was the top performing sub-component followed by Credit (0.19%), Supranational Sovereigns (0.17%) and Treasuries (-0.03%).

ESG research by MSCI saw them upgrade Apple Inc. to 'A' from 'BBB'. The upgrade has been driven by robust data security practices. With Apple announcing it has 1.6 billion active users. This is indicative of the large volume of sensitive personal data it handles and exposure to risks of compliance cost and adverse impact on reputation in case of a breach. The company monitors its data security programs through an overarching policy framework extending to all Apple and Apple-affiliated companies. Further, MSCI noted enhancements to user rights for third-party cookie tracking across its devices.

Australian 2-year bond yields fell 0.05% over the month to 0.59%, while 10-year yields decreased 0.02% to 1.67%.

At its final meeting for 2021, the RBA kept the cash rate unchanged at 0.10%. After an action-packed November RBA board meeting, there were no hints at any forthcoming policy changes in early 2022 with the Bank repeating that they would continue their QE purchases at A\$4bn per week until mid-February. Overall, the RBA messaging was relatively upbeat, notwithstanding the emergence of the Omicron Covid-19 variant. The Board noted that "the strain is a new source of uncertainty, but it is not expected to derail the recovery". The Bank was also bullish on the labour market noting job ads were at a historically high levels and firms are finding it difficult to hire workers. But they conceded that wages remain low despite the labour demand. Looking ahead markets are pricing in the first-rate RBA hike by mid-2022 and expect the cash rate to be at 1.0% by the end of 2022. This will all hinge on inflation, employment, and wage growth outcomes.

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- Fund Performance
- Unit Prices

Domestic data continues to come in better than expected for the significant data points. GDP for Q3 fell -1.9%, this was 0.8% better than forecasted and brought GDP y/y to 3.9%. Employment numbers saw a huge boost as 366,100 new jobs were created which was well ahead of the forecast of 200,000 new jobs. The unemployment rate fell 0.6% to 4.6%, even as the participation rate increased 1.4% to 66.1%. Private sector credit remains solid, rising 0.5% in October, this was 0.1% lower than expected but saw private sector credit y/y rise 0.4% to 5.7%. The NAB business survey for November saw business conditions rise 1 point to 12, while business confidence fell 9 points to 12, noting 12 is still a high level. The Westpac consumer confidence index fell 1 point to 104.3. Australia's trade balance delivered an \$11.2bn surplus which was in line with expectations.

In the U.S., 2-year treasury yields were 0.17% higher at 0.73% while the 10-year yield rose 0.07% to 1.51%.

The FOMC left the Fed Funds Rate unchanged at a target range of 0.0% – 0.25% and announced their widely anticipated tapering of asset purchases. The reduction in the pace of purchases will now be \$20 billion a month in US Treasury securities and \$10 billion a month in Agency mortgage-backed securities, double the amount previously communicated. All FOMC participants now expect the maximum employment portion of the mandate to be met in 2022. However, the committee could raise rates before reaching maximum employment given inflation is no longer being described as 'transitory' and the risk of more persistent, higher inflation has increased in the eyes of the committee. This provides the Fed with additional optionality should they need to hike rates sooner than previously anticipated.

U.S. Economic data continues to be steady. Final GDP for Q3 increased by 2.3% annualised, this was 0.2% better than expected. Non-farm payrolls saw 210,000 new jobs created and while this was below the expected 550,000, the unemployment rate still fell 0.4% to 4.2%. CPI increased by 0.8%, this was 0.1% better than expected and brings CPI y/y to 6.8%. Personal income and personal spending both grew in November, 0.4% and 0.6%, respectively. Consumer confidence fell 3.8% to 109.5 while retail sales were up just 0.3%, this was 0.5% less than expected. The ISM manufacturing index moved 0.3 of a point higher to 61.1, while the ISM services index rose 2.4 points to 69.1.

Credit spreads ended the month 1bp wider on average. All sectors recorded positive with utilities performing the best, returning 0.27%, followed by industrials (0.21%) with financials (0.12%) lagging slightly. YTD total A\$ issuance across financials reached A\$43.3bn, which is A\$12.3bn less than at the same period last year, of that, major bank issuance made up A\$13.2bn. YTD issuances for Non-Financial is A\$16.4bn.

Outlook

After several months of significant volatility in the bond market ended the year somewhat exhausted and fairly content to see the end of 2021. As more information came to light about the Omicron variant,

primarily relating to a dramatically reduced mortality rate, the bond market began to reprice with yields gradually rising. For the moment it seems the trend is for higher bond yields as fears of Covid-19 recede and global central banks begin the process of normalizing interest rates. The Fed has reversed course quickly in December announcing an increase in the pace of tapering of asset purchases (QE tapering), dealing with inflation that is no longer considered "transitory", and contemplating bringing forward rate hikes into early 2022. The Fed's course of action will be critical for bond markets throughout 2022.

As we look ahead to 2022, despite the renewed challenges posed by the Omicron variant, we are optimistic about the prospects for the Australian economy. Given we are now at an even stronger starting point than the RBA had expected and with the high vaccination rates here combined with political support for lockdowns falling, this gives us the confidence the domestic re-opening will continue. We expect GDP to rebound sharply as Q3 GDP showed that despite the severe Delta lockdowns, the economy performed better than expected. The household savings ratio remains at near all-time highs, leaving the consumer in an even more robust position heading into 2022 and the labour market has rebounded strongly. The main risks to the economy are if the Omicron (or another) variant causes higher-than-expected hospitalisations, activity restrictions are reimposed, and international borders remain largely closed.

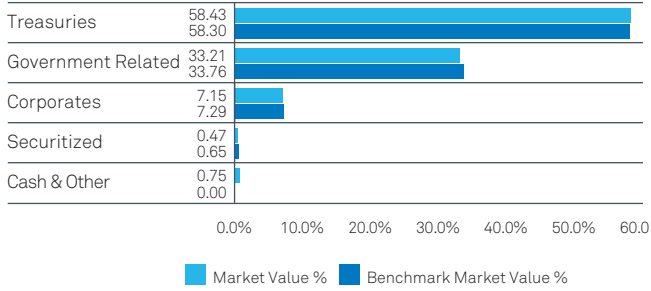
Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	58.4
QUEENSLAND TREASURY CORPORATION	8.0
NEW SOUTH WALES TREASURY CORPORATION	3.8
TREASURY CORPORATION OF VICTORIA	3.4
WESTERN AUSTRALIAN TREASURY CORPORATION	3.1
LANDWIRTSCHAFTLICHE RENTENBANK	1.6
INTERNATIONAL FINANCE CORP	1.4
KFW	1.3
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.2
BNG BANK NV	1.2

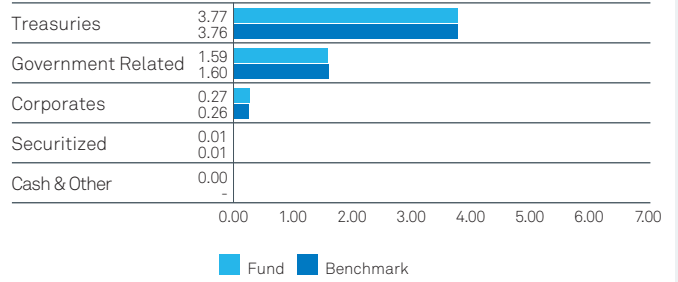
Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.64	5.63	0.00
Duration x spread (%)	0.90	0.96	-0.06
Yield (%)	1.43	1.44	-0.02
Average Coupon (%)	2.76	2.83	-0.07
Average Maturity (Years)	6.37	6.37	0.00
Green Bonds (%)	3.70	1.60	2.10
ESG Score	7.26	7.24	0.02

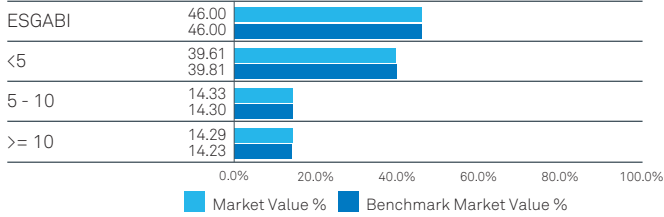
Sector Exposure



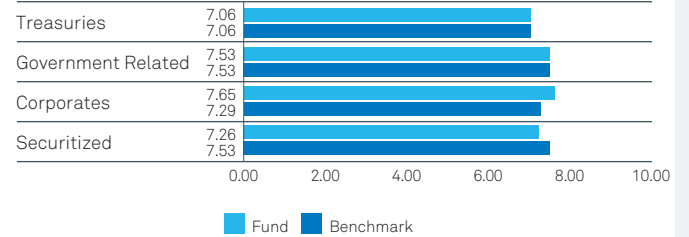
Contribution to Modified Duration



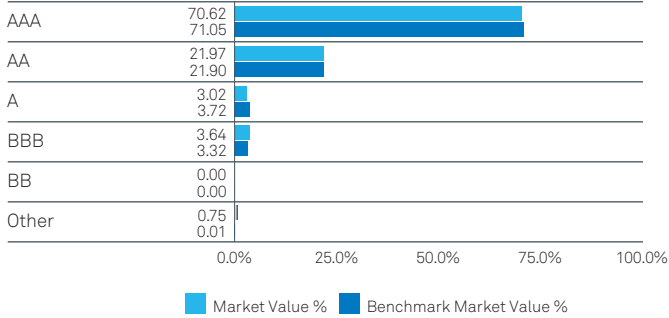
Maturity Exposure



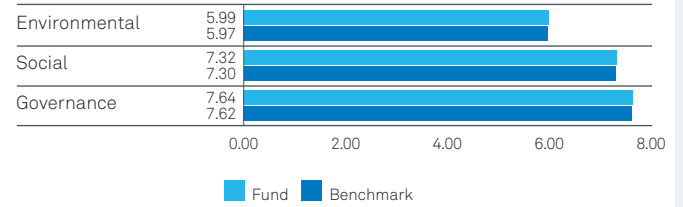
ESG Sector Score



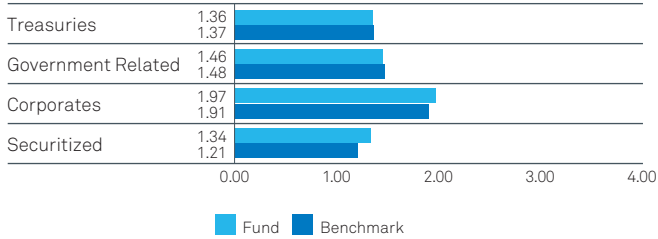
Quality Exposure



ESG Score Breakdown



Yield



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
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
EUROFIMA	9.8
KFW	9.3

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	522 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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