iSHARES ESG SCREENED GLOBAL BOND INDEX FUND

iShares by BLACKROCK®

FUND UPDATE **31 July 2023**

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
iShares ESG Screened Global Bond Index Fund (Gross of Fees) (Class E)	-0.08	-0.88	1.81	-4.06	-4.10	-	-1.90
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.09	-0.85	1.92	-3.97	-4.18	-	-1.91
Outperformance (Gross of Fees)	0.01	-0.02	-0.11	-0.09	0.08	-	0.01
iShares ESG Screened Global Bond Index Fund (Net of Fees) (Class D)	-0.10	-0.93	1.69	-4.26	-4.28	-	-2.12
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.09	-0.85	1.92	-3.97	-4.18	-	-1.91
Outperformance (Net of Fees)	-1.11	-0.07	-0.23	-0.28	-0.10	-	-0.22

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.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

Performance Summary

Market Review

US

In July, the Federal Open Market Committee (FOMC) resumed their rate hiking cycle after their hawkish pause the month prior. In line with market expectations, the Fed raised the Federal Funds rate by 25bps to a target range of 5.25% to 5.50%, the highest funds rate in 22 years. During the press conference, Chair Powell remained non-committal in providing any forward guidance and reiterated their data dependency and "meeting by meeting" approach, while leaving optionality for further tightening. The U.S. 2s10s Treasury spread curve ended the month with -91 bps of inversion with the 2-year Treasury at 4.88% and 10-year rates at 3.97%, steepening 15bps throughout the month.

On the U.S. data front, both the headline and Core CPI continued their softer trajectory coming in below consensus, bringing inflation closer to the Fed's target. Headline CPI came in at 0.18% MoM and 2.97% YoY, lower than expectations for 0.30% MoM and 3.1% YoY. The Core measure, exclusive of food and energy, came in at 0.16% MoM and 4.83% YoY, below expectations of 0.30% MoM and 5.0% YoY. In response to June's cooler CPI report, Chair Powell made it clear that, while it was a welcome development, the Fed does not think one data point makes a trend yet during the press conference.

The June US payrolls also registered lower than expectations. Total nonfarm payrolls employment in June added 209k jobs, below consensus expectations of a 230k increase. In addition, there was a -110k downward revision to the prior two-month tally. The unemployment rate fell to 3.6%, meeting consensus expectation. Since March 2022, the unemployment rate has ranged from 3.4 to 3.7%. For the fourth consecutive month, labor force participation rate remained unchanged at 62.6%. Average hourly earnings picked up by 0.4% MoM, with the yearly increase rising 4.4% YoY. Also, US economic growth unexpectedly picked up steam in the second quarter thanks to resilience among consumers and businesses in the face of high interest rates. Gross domestic product rose at a 2.4% annualized rate after a 2.0% pace in the previous three months. Consumer spending increased 1.6%, more than forecast, after surging at the start of the year.

The US 10-year Treasury opened at 3.86% and increased throughout the month, closing 10bps higher in yield at 3.96%. US rates sold off for the month but remained rangebound. Following the Fed resuming their hiking path, US nominal rates sold off ~13bps towards the end of the period. The 2yr yield ended for the July period at 4.88%. The 10yr note pushed higher, bringing the 2s10s curve to a monthly high of -92bps. The 5s30s curve increase by 16bps, reaching -17bps at month end.

Eurozone

The ECB raised interest rates to their highest ever level in July although indicated they are close to the end of the tightening cycle. Updating their messaging to advise interest rates "will be set at sufficiently restrictive levels for as long as necessary" President Lagarde used her press conference to confirm policy makers "had an open mind as to what the decisions will be in September and subsequent meetings". The dovish tone saw the euro weaken, duration markets rally and curves steepen as front-end yields outperformed longer end yields.

Previous rhetoric from traditionally hawkish ECB speakers had set the groundwork towards a dovish meeting as governors Knot and Holzman failed to endorse further hikes after July. The change is tone is rather stark when the minutes from the June meeting is considered. Their release indicated a concern inflation was "staying too high for too long" with one member even voting for a 50bps hike. Displaying a need to be data dependent, the evolution of growth and inflation can perhaps explain the change in tone.

Inflation pressures in the US and UK faded in July with duration markets rallying following softer CPI prints. In the US, inflation rose at the slowest pace in two years whilst in the UK where inflation has remained stickier, a reduction in price increases was witnessed across a broad range of items. In the eurozone, inflation fell in July to 5.3% however core (excluding food and energy prices) was unchanged at 5.5%. One area of disappointment for the ECB was services inflation rising to a record high of 5.6% although there is hope this was largely a result of one-off variables.

The latest ECB Bank Lending survey indicated eurozone business loan demand fell to a 20-year low whilst there were also falls in demand from households for mortgages and credit. Following a similar pattern, survey-based data continues to show a weakening outlook with examples including the Ifo Institute's gauge of German business confidence (8 month low) and purchasing managers index with composite measure moving into contraction (reading below 50).

Pockets of political risk re-merged within the eurozone after Mark Rutte resigned as the Prime Minister of the Netherlands and Spanish elections failed to produce a ruling government. Market reaction to either event was fairly muted with respective sovereign spreads remaining stable. Reflecting the diminished volatility in sovereign spreads since the creation of the ECB's Transition Protection Instrument in 2022, despite never using the tool, its presence has helped limit pressures to idiosyncratic events thus far.

UK

July finally saw relief in UK inflation, headline year-on-year (YoY) dropped below 8% for the first time in over a year, core inflation also cooled while GDP slowed less than expected and retail sales were stronger than expected. Data overall for the UK during July was positive, however wage growth persistence remains with average earnings excluding bonus again 7.3%, for two consecutive months, matching a late 2021 print for the highest rate on record. Given the softness in inflation, yields finished the month lower, circa 30bps in the 2yr, 10bps in the 10yr and unchanged in the 30yr. Pricing for the terminal rate has also fallen by 50bps, from a previous market forecasted terminal rate of 6.4% to start the month. All eyes will be on the Bank of England's (BoE) meeting the first week of August with the market now pricing only a 25bps hike to 5.25% followed by another 50bps of hikes.

The start of the month showed UK wages continued to rise at a record annual pace, regular pay grew by 7.3% for the second month in a row, matching August 2021, the highest growth rate since records began in 2001, while the unemployment rate hit 4% from 3.8% the previous month. GDP proved to shrink less than expected helped by coronation festivities, month-on-month (MoM) at -0.1 versus expected -0.3% and YoY -0.4% vs expected -0.7%. The main story for the month was inflation falling more than expected with headline YoY at 7.9% vs an expected 8.2%, down from 8.7% last month. Core inflation also fell to 6.9% from 7.1% last month which was the highest rate in 31 years and was the expected print again for July. The decline in inflation was largely driven by the drop in motor fuel prices. The lower-than-expected inflation numbers have led market participants to drop their expectations to a 25bps increase by the BoE in their next meeting from previously pricing a 50bps hike.

Japan

JGB yields rose significantly mainly over 7yr zone, and the 10yr yield ended the month 0.205% higher at 0.60%. During the policy meeting on the 28th, the Bank of Japan (BoJ) decided to widen the effective range of the Yield Curve Control (YCC) band. While keeping the fluctuation range of the 10yr yield at around ±0.5%, the BoJ changed the level of fixed-rate purchase operations without the limit on the total amount of purchases on all business days from 0.5% to 1.0%. As a result, JGB yields rose significantly in the long-term and super-long-term zone. The overall inflation ex-perishable food was +3.3% YoY in June, and remained above the central bank's 2% target for fifteenth straight month as food prices continued to be high. The unemployment rate remained relatively low at 2.5% in June.

Risk Characteristics

	Fund	Benchmark
Average Maturity (Years)	8.43	8.66
Modified Duration (Years)	6.72	6.77
Norminal Yield (%)	3.78	3.83
Convexity	0.85	0.86

Top 10 Issuers (%)

	Weight (%)
UNITED STATES TREASURY	19.0
JAPAN (GOVERNMENT OF)	11.9
UNIFORM MBS	9.1
CHINA PEOPLES REPUBLIC OF (GOVERNMENT)	5.3
ITALY (REPUBLIC OF)	2.9
UK CONV GILT	2.9
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION 2	2.7
FRANCE (REPUBLIC OF)	2.4
GERMANY (FEDERAL REPUBLIC OF)	2.3
SPAIN (KINGDOM OF)	1.9

Top 10 Issuers held by ESG score

	ESG Score
COMPAGNIE GENERALE DES ETABLISSEMENTS MICHELIN SCA	10.0
KFW	10.0
SOCIETE GENERALE SA	10.0
TEXAS INSTRUMENTS INC	10.0
ADOBE INC	10.0
AKZO NOBEL NV	10.0
ASSICURAZIONI GENERALI SPA	10.0
BUNGE LIMITED FINANCE CORPORATION	10.0
COUNCIL OF EUROPE DEVELOPMENT BANK	10.0
CRH FINANCE DAC	10.0

Quality

	Fund %	Benchmark %
Aaa	42.5	43.6
Aa	14.2	14.2
A	28.7	27.7
Baa	13.2	12.8
Ba	0.0	0.0
NR	1.4	1.6

Maturity Exposure

	Fund %	Benchmark %
< 5	42.91	41.70
5 - 10	32.88	33.62
>= 10	24.21	24.68

Country Exposure

	Fund %	Benchmark %
US	39.41	41.11
Japan	12.52	12.61
China	5.96	6.04
Germany	4.57	4.60
France	5.40	5.36
UK	4.70	4.45
Italy	3.29	3.21
Canada	3.40	3.44
Other	20.75	19.17

ESG Sector Score

	Fund	Benchmark
Treasuries	6.15	6.16
Government Related	6.43	6.36
Corporates	5.63	5.50
Securitized	5.39	5.38

ESG Score Breakdown

	Fund	Benchmark
Environmental	5.40	5.28
Social	6.70	6.72
Governance	6.30	6.31

Green Bonds Exposure

	Fund %	Benchmark %
Green Bonds	0.09	0.04

About the Fund

Investment Objective

The Fund aims to match the return of the Bloomberg Barclays MSCI Global Aggregate SRI Select ex-Fossil Fuels index (AUD hedged) before fees less interest withholding taxes and the cost of currency hedging.

Fund Strategy

The strategy seeks to match the distribution of the risk-and-return factors of the index through a "stratified sampling" approach. This approach breaks the index into "cells" of securities that have similar factors of risk and return and then build a portfolio to match these cells. The factors we consider are interest-rate risk, credit risk and specific (security) risk.

Should be considered by investors who ...

- Seek broad exposure to global bonds.
- Seek a fund that uses a stratified-sampling approach so returns match those of the global bond market before fees and before the cost of currency hedging.
- Have a long term investment horizon.

Fund Details

iShares ESG Screened Global Bond Index Fund (Class E)	
APIR	BLK2319AU
Fund Size	549 mil
Buy/Sell Spread	0.10%/0.10%
Tracking Error (3 Years p.a.)	0.15%

iShares ESG Screened Global Bond Index Fund (Class D)	
APIR	BLK4636AU
Management Fee	0.20%

^ The actual inception of the Fund is 1 August 2019.

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