

iSHARES ESG GLOBAL BOND INDEX FUND

iShares[®]
by BLACKROCK[®]

FUND UPDATE

31 January 2022

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
iShares ESG Global Bond Index Fund (Gross of Fees) (Class E)	-1.62	-1.36	-1.62	-2.68	-	-	0.84
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-1.63	-1.36	-1.63	-2.73	-	-	0.85
Outperformance (Gross of Fees)	0.02	0.00	0.02	0.05	-	-	-0.01
iShares ESG Global Bond Index Fund (Net of Fees) (Class D)	-1.64	-1.41	-1.64	-2.83	-	-	0.60
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-1.63	-1.36	-1.63	-2.73	-	-	0.85
Outperformance (Net of Fees)	0.00	-0.05	0.00	-0.09	-	-	-0.25

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

US

In January, The Federal Open Market Committee (FOMC) inferred that it will soon be appropriate to increase the policy rate, teeing up a potential rate hike in March. The Chair avoided questions on the path of policy beyond lift-off but reiterated that the economy is much stronger than during previous hiking cycles. On the pace of future hikes, the Chair also avoided questions on whether they could hike more frequently than every quarter or in magnitudes larger than 25 basis points. Instead, he highlighted the uncertainty in forecasting the rates path and said they'll have to be agile in navigating crosscurrents and risks.

The FOMC also confirmed that asset purchases will conclude in early March and confirmed that balance sheet reduction will begin after rate hikes commence. The Committee's high-level principles for reducing the balance sheet stated changes in the target range for the federal funds rate as its primary measure for adjusting the stance of monetary policy due to strong inflation prints and labor market progress. Chair Powell pointed to quits, wages and the vacancies to unemployed ratio as indicators of strength with the belief that labor force participation can improve, but with some time. As for the reduction, the principles refer to 'significantly' reducing the size of the Federal Reserve's balance sheet. In contrast to the principles in the prior cycle, the Committee did not rule out selling MBS. The Chair said that discussions would likely continue for two meetings to iron out the details.

Inflation remains consistent, but slightly elevated since the December FOMC meeting. There are expectations for progress on supply chain issues in the second half of the year though Chair Powell thinks the semiconductor disruptions could go beyond 2023. December's CPI report increased to 0.55% MoM, remaining strong and in line with consensus expectations. This pushed the YoY up to 5.49%, the highest level since October 1982. Prices in core goods were strong in December (due to transportation commodities, used vehicles, and new vehicles) to which has implications for further strength in coming months and is reassuring for our above consensus forecast through 2022. Energy prices declined 0.4% and food prices moderated to 0.5% monthly growth in December. Taken together with core, headline CPI increased 0.49% in December, moving headline CPI inflation up to 7.12%.

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Eurozone

Sovereign bond yields rose broadly across the eurozone in January as markets continued to price in the withdrawal of monetary policy stimulus. The benchmark 10-year bund yield rose 19 bps to enter positive territory at +0.01%. Perhaps more notable were the moves in short-dated yields, with markets now pricing in 20bps of rate hikes from the ECB by the end of 2022, and around 70bps by the end of 2023.

Focus was on Italy in January, as the presidential election unfolded. Italian Sovereign spreads exhibited weakness throughout the month over concerns that the election of Draghi as President could derail or delay the implementation of reforms and the deployment of Next Generation EU (NGEU) recovery funds. On 30th January, incumbent President Mattarella was re-elected for a second term. This was taken as a positive by the market, ensuring political and policy continuity until elections in the spring of 2023. The spread on 10-year Italian government debt over Germany rallied to end the month 7bps lower at 128bps.

The eurozone economy grew 0.3% in the fourth quarter of 2021, although divergences were seen between the major economies. Spain and France reported solid growth (2.0% and 0.7% respectively), while German GDP contracted 0.7% quarter-on-quarter. Despite the outperformance, Spanish GDP remains 4% smaller than pre-pandemic levels. Looking ahead there is tentative evidence that the supply constraints holding back in particular German manufacturing are beginning to ease.

Flash readings of the Euro area January purchasing managers' index (PMI) saw the composite reading fall to an 11-month low of 52.4, slightly below expectations of 52.6. The manufacturing PMI beat expectations at 59.0, while the services PMI missed at 51.2. The weakness in services is attributable to the spread of the Omicron variant and renewed social distancing, while the strength in manufacturing was driven by new orders, suggesting the sector is set to grow robustly.

Inflation in the eurozone rose 0.4% in December, bringing headline inflation to 5.0% and core inflation to 2.6% year-on-year. While the rise in energy prices decelerated in December, core goods and fresh food inflation remained strong. Preliminary inflation data for January released at the end of the month overshot expectations, especially in Germany where strong increases in energy prices partially offset base effects as the H2 2020 VAT cut fell out of the annual comparison.

UK

2022 began in a staggered manner for both UK government bond and credit markets as rampant short-term inflation persisted in most recent readings. UK Inflation rose to the highest point in 30 years, focusing central bank rhetoric on interest rate hiking, the market now expects the Bank of England (BoE) to hike rates five times over the course of 2022. Despite raising its key interest rate in December 2021, the BoE still faced criticism about being behind the curve when attempting to control inflation, providing uncertainty toward the rate of which further rate hikes will come. Most recent GDP figures indicated UK output grew by 0.9% in November, placing growth ahead of pre-pandemic levels for the first time since February 2020. Omicron's spread over December and early January will likely dampen GDP over the short term, but restrictions to limit the variants spread in December were soon lifted in January so these effects are expected to only marginally impact output.

The BoE is poised to raise interest rates at its next Monetary Policy Committee (MPC) meeting amid growing concern over the pressure from high inflation. December headline UK inflation exceeded expectations and reported the highest reading in the past three decades of 5.4%, driven by rising food, petrol and household energy costs. In light of looming increases in the near term, the first month of 2022 was one in

which UK bonds had to endure rather than thrive. The UK 10-year yields increased from 0.97% to 1.30%, whilst the 2-year yield rose 35bps to breach 1% yields for the first time since 2011.

Further upward inflationary pressure was revealed in the labour market. The number of vacancies reached a record 1,247,000 in the three-month period to December, in addition to unemployment falling to 4.1%, just 0.1% above pre-pandemic levels. Together, the figures suggested a strong UK economy that may encourage the Bank of England to retain its focus on inflation and serve to quicken policy tightening from the BoE. Policy makers have previously signaled they might stop reinvesting expired bonds and start selling the central bank's £875Bn worth of gilt holdings once interest rates reach 0.5% and 1%. Hence, markets could need to brace in the near term to expect for deeper concessions into bond auctions and larger price swings with an absent central bank.

The release of UK Composite PMI confirmed a marginal improvement to 54.2, ahead of December's 10 month low of 53.6 as constraints imposed last month with the spread of Omicron were lifted. However, momentum of continuing growth face continued cost pressure from a tight employment market in addition to rising transportation and energy costs. Continued energy cost increases have caused headaches for UK policy makers, a cap on domestic energy costs is expected to rise by 50% in April, in addition to increasing payroll taxes set to take effect during the same period. Despite wages increasing at a high rate, decreasing consumer spending power is likely to be a key trend to monitor over the coming months.

Japan

Japan Government Bond (JGB) yields rose across the curve, with the 10-year JGB yield ending the month 11 bps higher. While the spread of the Omicron variant rapidly increased in Japan over the month, JGB yields mainly rose against a backdrop of a further strengthening in the Fed's hawkish stance, while the potential adjustment of the Bank of Japan's (BoJ) yield curve control policy also saw yields move higher.

The Q4 GDP print appears to have seen a solid recovery. Although the spread of the Omicron variant may again act as a negative factor in Q1 2022, the latest report shows there are no major concerns about exports and capital investment, and there are signs of a recovery in production. Hence, the recovery is likely to remain relatively strong over the medium term. The overall inflation levels remained weak, hitting modestly higher at +0.5% YoY in December. While energy-related prices have risen, the impact of the reduction in phone bills continued to be a major downward factor. The unemployment rate remained relatively low at 2.7% in December.

The BoJ held policy rates unchanged during the January meeting as widely expected. The outlook report revised up its forecasts for GDP growth and core CPI for FY2022. Meanwhile, at the press conference, Governor Kuroda maintained his stance that the current easing policy should be maintained as the 2% inflation target is still far to be achieved.

Risk Characteristics

	Fund	Benchmark
Average Maturity (Years)	8.88	9.11
Modified Duration (Years)	7.49	7.53
Norminal Yield (%)	1.45	1.46
Convexity	0.86	0.87

Quality

	Fund %	Benchmark %
Aaa	41.3	41.7
Aa	15.0	15.2
A	28.4	27.8
Baa	13.4	13.7
Ba	-	-
NR	2.0	1.6

Maturity Exposure

	Fund %	Benchmark %
< 5	42.09	40.24
5 - 10	33.97	34.45
>= 10	23.94	25.31

Country Exposure

	Fund %	Benchmark %
US	40.70	39.20
Japan	14.46	14.38
Germany	4.54	4.68
France	5.46	5.52
UK	5.44	5.18
Italy	3.49	3.35
Canada	3.41	3.40
Other	22.50	24.30

ESG Sector Score

	Fund	Benchmark
Treasuries	5.85	5.84
Government Related	6.54	6.55
Corporates	6.87	6.48
Securitized	7.72	7.55

ESG Score Breakdown

	Fund	Benchmark
Environmental	5.43	5.34
Social	7.08	7.06
Governance	6.25	6.24

Green Bonds Exposure

	Fund %	Benchmark %
Green Bonds	2.24	1.23

Top 10 Issuers held by ESG score

	ESG Score
ADOBE INC	10.0
BANCO BILBAO VIZCAYA ARGENTARIA SA	10.0
BANK OF NOVA SCOTIA	10.0
BERLIN HYP AG	10.0
BUNGE LIMITED FINANCE CORPORATION	10.0
CAISSE DE REFINANCEMENT DE L HABITAT	10.0
COMPAGNIE GENERALE DES ETABLISSEMENTS MICHELIN SCA	10.0
COUNCIL OF EUROPE DEVELOPMENT BANK	10.0
CRH FINANCE DAC	10.0
INTER-AMERICAN DEVELOPMENT BANK	10.0

Top 10 Issuers (%)

	Weight (%)
UNITED STATES TREASURY	17.8
JAPAN (GOVERNMENT OF)	13.8
CHINA PEOPLES REPUBLIC OF (GOVERNMENT)	4.1
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.9
ITALY (REPUBLIC OF)	3.2
FRANCE (REPUBLIC OF)	3.1
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION 2	3.1
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (GOVERNMENT)	2.7
UNIFORM MBS	2.7
GERMANY (FEDERAL REPUBLIC OF)	2.5

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 Global Bond Index Fund (Class E)	
APIR	BLK2319AU
Fund Size	552 mil
Buy/Sell Spread	0.10%/0.10%
Tracking Error (3 Years p.a.)	-

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

^ The actual inception of the Fund is 31 October 1997, however the Fund has been made available to clients investing indirectly through master trust or wrap accounts from 1 April 2010. Please note that pricing information displayed on BlackRock website from the date of the Fund's actual inception up to and including 31 March 2010 has been calculated before fees, whilst prices on and after 1 April 2010 will be reported on an after fees basis.

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