

iSHARES ESG GLOBAL BOND INDEX FUND

iShares®
by BLACKROCK®

FUND UPDATE

31 October 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)	-0.39	-6.65	-13.17	-12.95	-3.72	-	-3.15
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.41	-6.66	-13.32	-13.08	-3.77	-	-3.19
Outperformance (Gross of Fees)	0.02	0.02	0.15	0.13	0.06	-	0.04
iShares ESG Global Bond Index Fund (Net of Fees) (Class D)	-0.41	-6.70	-13.32	-13.13	-3.94	-	-3.38
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.41	-6.66	-13.32	-13.08	-3.77	-	-3.19
Outperformance (Net of Fees)	0.00	-0.03	0.00	-0.05	-0.16	-	-0.18

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 October, economic data continued to corroborate high price pressures, tight labor markets, and the Fed rhetoric remained hawkish as expected. In the United States, nominal yields on the UST 2-yr sold off by 20bps, to close the month at 4.48%. Further out on the curve, the nominal yield on the UST 10-yr hit new highs throughout the month and closed at 4.05%. US Equities had positive performance with the S&P500 up by 8.1% in October, making this the 4th best performance month for the SPX since 1928.

There was no scheduled FOMC meeting in October as participants entered a quiet period prior to their November meeting. It is widely expected the committee will vote to raise the federal funds target range by another 75 bps to 3.75-4.0%, meaning the focus will be on the Chair Powell's comments regarding their last meeting of the year and beyond. Since the July FOMC meeting, the Chair has reiterated that there will come a time when it will be "appropriate to slow the pace". Given the Fed speak leading up to the November meeting, Powell could use his press conference to guide toward a more balanced approach to policy adjustments and a slowing in the pace of increases. Decisions are ultimately made at the meeting itself though, so he'll likely still keep some optionality on the table. Slowing is not pausing however; they are still committed to the fight to restore price stability. By the end of the year, the Fed's rapid pace of tightening will have brought the fed funds rate from 0% to above 4.0% within nine months.

The October inflation print displayed an overall continuation of some persistent price increases. Headline CPI printed 0.39% MoM and slowed to 8.20% YoY while Core CPI, excluding food and energy, came in at 0.58% MoM and rose to 6.66% YoY with continuing evidence of strength in the services sector and a welcome deceleration in the goods sector. Within the details, services inflation showed strength nearly across all the categories with shelter inflation in particular running at 0.7% MoM. In addition to shelter, physicians services, hospital services, transportation services, and new cars added to inflationary impulse.

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- Unit Prices

Eurozone

The ECB raised interest rates to their highest level since 2009 after another 75bps hike although the meeting was perceived as dovish. Altering guidance from rates would rise “at the next several meetings” to “expects to raise rates further” in combination with President Lagarde acknowledging the threat of recession saw bonds rally across the curve. Expectations of future tightening dropped materially as approximately 75bps of hikes were removed from 2023 with terminal rate of this cycle forecasted around 2.80%.

Despite raising rates by 75bps, post meeting analysis indicated growing divergences within the ECB after 3 officials voted for a 50bps hike. Aligning with other central bank activity, recent meetings demonstrate a dovish slant with both Bank of Canada and Reserve Bank of Australia raising rates in lower increments than expected. History dictates monetary policy operates with a lag and therefore even though the ECB started raising rates in July, the velocity of change (200bps in 3 months) is likely to have a profound effect on the real economy when it is fully realised.

The rally was positive for risk assets with BTP-Bund spreads contracting although risks remain in the periphery given uncertainty to the source of funding for proposed eurozone energy support package.

Forward looking data within the eurozone continue to suggest a deteriorating economy. October composite flash PMI's fell further into recessionary territory, sitting below 50 for the fourth consecutive month. Demonstrating some resilience, the Q3 GDP release showed the economy expanded by 0.2% with retail sales in Germany and Italy surprising, however it remains very difficult to avoid a contraction in Q4. Whilst consumer confidence did improve slightly in October, the ECB bank lending survey illustrated credit standards tightening substantially in households and firms. Of note was the fall in demand for housing loans, with this metric incurring its largest quarterly drop since 2008.

Inflation within the eurozone reached new highs after CPI YoY hit 10.7% (10.3% forecasted). Driven by energy and food costs, of greater concern was core CPI (excluding food and energy) setting a record (5%) with fears growing inflation may become entrenched through second round effects. Temporary respite may be provided by mild weather and capacity constraints bringing down energy costs however longer-term energy supply issues persist.

UK

It was a tumultuous month for the UK financially and politically. The start of the month saw UK rate volatility at historic levels with yields at 14-year highs. The Bank of England (BoE) was forced to intervene with an emergency bond-buying operation after Liz Truss's disastrous “mini-budget”. The purchasing program took place until mid-October delaying their planned QT, gilt selling operation until the end of the month. Economic data for the period remained negative with unemployment nearing 50-year highs, GDP slipping into recession territory and inflation matching July's 40 year high. The end of the month was highlighted by the beginning of the BOE's QT operation, the first for any major central bank.

Politically the month proved just as volatile as it did financially. Liz Truss resigned after 44 days as Prime Minister (PM), a new record for the UK, quickly replaced by former Finance Minister Rishi Sunak. This also saw a new Finance Minister, Jeremy Hunt who walked back many of predecessor Kwasi Kwarteng's proposed unfunded tax cuts allowing for a conservative convergence of politics and economy policy. In a similar fashion to the fiscal environment, monetary policy was also revised to extremes. The Bank of England (BoE) intervened several times, announcing bond buying, additional repo facilities and even index-linked gilt buying – something they had not previously undertaken since the start of embarking on Quantitative Easing in 2009.

While the first half of October saw the Bank of England try to “restore orderly market condition” it also had significant economic releases, all prior to Liz Truss's resignation on the 20th. The unemployment rate hit 3.5%, its lowest level since 1974. The UK slipped into recession from zero growth with a GDP of -0.3% MoM. While CPI bounced back to July's 40 year high, 10.1% YoY. The last time inflation was over 10% in the UK was February 1982. However, the appointment of Sunak as PM on the 24th outweighed these concerns and for the remainder of October gilt yields and bond volatility subsided.

It was an extraordinary month for UK yields throughout the curve (2s,5s,10s,30s) which all traded over a 100bps range and are now back below pre budget levels. These ranges roughly doubled that of respective yields in Germany and US. The front and long end of the curve experienced the most volatile ranges, 2-year Gilts (125bps) and 30-year Gilts (131bps).

Japan

JGB yield fell mainly via 6-10yr zone and yield rose in 10+yr zone with 10Yr yield ending the month 0.5bp lower at 0.24%. The Japanese bond yields also came under upward pressure as bond yields in the U.S. and European markets trended higher on the prospect of consecutive large interest rate hikes by the Fed, a weakening yen against the dollar and yen markets, and potential revisions to the Bank of Japan's yield curve control policy. In addition, the withdrawal of a major tax cut plan in the U.K. and the anticipated slowdown in the pace of interest rate hikes by the Fed were factors that pushed yields lower, but the impact was limited.

The overall inflation ex-perishable food was +3.0% YoY in September, remained above the central bank's 2% target for a sixth straight month as energy and food prices continued to be high. The unemployment rate remained relatively low at 2.6% in September.

The BOJ continued to conduct fixed rate purchase operation on all business days to keep the yield on 10-year JGBs at 0.25% and repeatedly conducted the temporary purchases and increased the purchases over a wide range of years. The BOJ maintained monetary policy at its decision meeting. In its Outlook Report, the BOJ raised its FY22 core CPI (excluding fresh food) forecast to +2.9% y/y, but maintained its outlook for a sharp slowdown in the core CPI to the mid-1% range in the following year. It also announced a 50% increase in purchases in the over-10-year bucket in its November purchase schedule (even though it was mid-quarter).

Risk Characteristics

	Fund	Benchmark
Average Maturity (Years)	8.51	8.67
Modified Duration (Years)	6.78	6.78
Normal Yield (%)	3.76	3.77
Convexity	0.87	0.88

Top 10 Issuers (%)

	Weight (%)
UNITED STATES TREASURY	19.4
JAPAN (GOVERNMENT OF)	12.6
FEDERAL NATIONAL MORTGAGE ASSOCIATION	5.4
CHINA PEOPLES REPUBLIC OF (GOVERNMENT)	4.7
FRANCE (REPUBLIC OF)	2.9
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION 2	2.8
FEDERAL HOME LOAN MORTGAGE CORPORATION	2.8
ITALY (REPUBLIC OF)	2.8
BLACKROCK ICS PLC - INSTITUTIONAL US DOLLAR LIQUIDITY FUND	2.5
GERMANY (FEDERAL REPUBLIC OF)	2.1

Top 10 Issuers held by ESG score

	ESG Score
BANK OF NOVA SCOTIA	10.0
DNB BOLIGKREDITT AS	10.0
AKZO NOBEL NV	10.0
BANCO BILBAO VIZCAYA ARGENTARIA SA	10.0
BUNGE LIMITED FINANCE CORPORATION	10.0
CNH INDUSTRIAL CAPITAL CANADA LTD	10.0
COMPAGNIE GENERALE DES ETABLISSEMENTS MICHELIN SCA	10.0
COUNCIL OF EUROPE DEVELOPMENT BANK	10.0
CRH FINANCE DAC	10.0
DANONE SA	10.0

Quality

	Fund %	Benchmark %
Aaa	43.7	44.4
Aa	14.1	13.8
A	28.2	27.6
Baa	12.8	12.6
Ba	0.0	0.0
NR	1.3	1.6

Maturity Exposure

	Fund %	Benchmark %
< 5	42.19	41.32
5 - 10	31.86	32.49
>= 10	25.96	26.18

Country Exposure

	Fund %	Benchmark %
US	40.53	42.19
Japan	13.25	13.15
China	5.79	5.79
Germany	4.21	4.43
France	5.20	5.08
UK	4.65	4.46
Italy	3.09	3.01
Canada	3.55	3.54
Other	19.74	18.36

ESG Sector Score

	Fund	Benchmark
Treasuries	6.35	6.34
Government Related	6.46	6.47
Corporates	5.74	5.56
Securitized	5.42	5.38

ESG Score Breakdown

	Fund	Benchmark
Environmental	5.60	5.48
Social	7.04	7.04
Governance	6.36	6.35

Green Bonds Exposure

	Fund %	Benchmark %
Green Bonds	2.40	1.40

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	511 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 30 April 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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