

iSHARES ESG GLOBAL BOND INDEX FUND

iShares®
by BLACKROCK®

FUND UPDATE

30 November 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)	2.36	-1.66	-11.13	-11.58	-2.89	-	-2.39
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	2.38	-1.65	-11.26	-11.70	-2.95	-	-2.43
Outperformance (Gross of Fees)	-0.02	-0.01	0.14	0.12	0.06	-	0.04
iShares ESG Global Bond Index Fund (Net of Fees) (Class D)	2.34	-1.71	-11.29	-11.76	-6.54	-	-2.62
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	2.38	-1.65	-11.26	-11.70	-6.48	-	-2.43
Outperformance (Net of Fees)	-0.04	-0.06	-0.03	-0.06	-0.06	-	-0.19

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

On November 2nd, the Federal Open Market Committee (FOMC) raised the Federal Funds rate by 75 bps, representing the fourth 75 bps move this year. In the accompanying press conference, Chair Powell stated that "restoring price stability will likely require maintaining a restrictive stance of policy for some time." The committee remains focused on fighting inflation and preventing higher inflation expectations from getting entrenched in the economy. According to Kansas City Fed President George, the tight labor market in the US poses challenges to bringing inflation down to target without "some real slowing, and maybe we even have contraction in the economy to get there." The primary reaction function of the Fed remains focused on curbing inflation, which will keep the Fed moving, but with the market questioning early indications that the Fed may downshift its rate hike increment moving forward.

On the U.S. data front, the October Core CPI print came in much lower than expected. Core CPI cooled to 0.3% MoM, showing some compelling signs of moderation in the month of October. Details showed that owners-equivalent-rent and rent of primary residence slowed to 0.62% MoM and 0.69% MoM respectively, representing the lowest readings since May and an early sign that sticky housing costs may have peaked. Headline CPI rose 0.4% MoM, a slight pickup from 0.39% in September. There were also other signs of economic activity slowing with the S&P Global US services PMI moving lower to 46.1 MoM. In rates space, 10-year U.S. nominal rates fell ~43 bps to 3.61%. U.S. Equities posted positive performance with the S&P500 up by 7.58% in November, which accounts to a 15.67% decrease for this year.

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- Fund Performance
- Unit Prices

Eurozone

Markets rallied over November, as participants became hopeful for a slowdown in the pace of rate hikes from central banks. ECB President Christine Lagarde gave little away however, keeping options open until the next monetary policy meeting on 15th December. At the end of November, markets price a 57bp hike in December, indicating expectations are skewed towards a slowdown in pace from the prior two 75bp rate hikes. Terminal rate pricing in Europe fell slightly to 2.85%, with markets pricing the peak in June 2023. While interest rates fell across the curve, long-end rates experienced the largest moves. The interest rate on the 10-year German bund fell from 2.12% to 1.91%, while the 25-year rate fell from 2.20% to 1.76%.

Euro area PMIs improved slightly in November, although remained below 50 indicating further contraction. The composite PMI increased from 47.3 in October to 47.8, with the improvement coming from manufacturing while services remained stable. The improved manufacturing outlook could be a sign of easing concerns about energy rationing, given high gas storage and a mild start to the winter in Europe. Data also showed a strong fall in input prices in the manufacturing sector; however, these will take some time to feed through to end-consumers. Also showing sequential improvement was the German ifo, robustly beating expectations of 85.0, coming in at 86.3. The expectations component was the key driver of the beat, with businesses now expecting a less severe slowdown in activity this winter, driven both by the improved energy outlook and activity holding up better than initially expected.

The Eurozone November inflation print fell in November, coming in slightly below expectations at 10.0% YoY (from 10.6% YoY in October). The deceleration was mainly driven by a fall in energy, while core goods inflation remained stable, and services inflation fell marginally. Food inflation continued to accelerate, however. Whereas we expect headline inflation to come down noticeably in the coming months, core inflation is likely to be more sticky and decline more slowly.

Eurozone Sovereign spreads narrowed over the month, with the spread on 10y-year French and Italian debt narrowing by 8bp and 21bp respectively. The ECB are expected to lay out the key principles of the Asset Purchase Program unwind in December, which we expect to be gradual in order to prevent a sharp widening in spreads and contain fragmentation risks.

UK

November proved a busy month for the UK with its largest rate hike since 1989, a government budget, and CPI hitting a 41-year high. While all of this sounds like the recipe for another volatile month, yields trended lower and credit spreads tightened as equities rallied. The 10-year gilt bounced back down to 3% after reaching 14-year highs around 4.5% last month. The government announced a budget of £55 billion in tax rises and spending cuts from the budget announced just 6 weeks prior outlining £30 billion in tax cuts. Economic data, aside from inflation was relatively mixed but ultimately showed signs of improved economic activity from the recent depressed levels we have witnessed.

The start of the month saw the Bank of England (BoE) raise interest rates by 75bps to 3%, its largest rate hike since 1989 as it warned of "very challenging" times ahead for the UK economy. While all members were in favour of a hike, two voted for only a 50bps rise. As hawkish as the hike itself was, the guidance given by the Bank ultimately proved more accommodative. The BoE suggested the market had priced too aggressively future rate hikes – "further increases in Bank Rate may be required for a sustainable return of inflation to target, albeit to a peak lower than priced into financial markets". The BoE forecast inflation to hit 11% by the end of this year and it took less than two weeks for this to come true as CPI hit a 41 year high at 11.1% YoY when final October data was published. The main drivers were soaring energy bills and food prices rising at the fastest pace since 1980. Core inflation was unchanged at 6.5%. GDP data showed the UK is entering a recession with a contraction in Q3 of -0.2% vs an expected -0.5%. The decline marks the impact of higher interest rates leading to a real income squeeze alongside slowing global demand.

The second half of the month saw finance minister Jeremy Hunt announce a wave of tax increases alongside tighter public spending as fiscal medicine was needed in the wake of Liz Truss's unfunded budget announcement. The market deemed the new budget sufficient to help stabilize public finance and we saw the pound rally for the remainder of the month. Yields fell nearly 65bps for the 10-year and credit spreads tightened throughout the month while the yield curve flattened into negative territory again signalling recessionary fears. The curve had steepened earlier, with the difference between 2 year and 10 year bonds as positive as 50bps earlier in the month, before flattening into the negative territory ending the month at -13bps.

Japan

JGB yield rose mainly via 10+yr zone and yield curve steepened in 10+yr zone with 10Yr yield ending the month 1bp higher at 0.25%. The Japanese bond yields also came under downward pressure as bond yields in the U.S. and European markets trended lower on the prospect of interest rate hike slowdown by the Fed and that inflation is peaking out. In addition, yen was largely bought back in the dollar-yen market. However, in the Japanese bond market, in addition to the potential revision of the BOJ's yield curve control policy, accelerated increases in inflation resulted in strong upward pressure on yields, especially on ultra-long-term bonds. Hence, super- and long-term bond yields came under strong upward pressure.

The overall inflation ex-perishable food was +3.6% YoY in October, remained above the central bank's 2% target for a seventh straight month and hitting four decade high as energy and food prices continued to be high. The unemployment rate remained relatively low at 2.6% in October.

The Japanese government has formulated a major additional economic stimulus package with an additional expenditure of 29 trillion yen from the general account. However, the additional issuance was fairly limited and mainly via short-term bonds as the ministry cut back on unused FILP bond issuance while also drawing on front-loaded bonds to curb the overall increase for this calendar year.

Risk Characteristics

	Fund	Benchmark
Average Maturity (Years)	8.57	8.75
Modified Duration (Years)	6.91	6.91
Norminal Yield (%)	3.38	3.48
Convexity	0.86	0.89

Top 10 Issuers (%)

	Weight (%)
UNITED STATES TREASURY	19.5
JAPAN (GOVERNMENT OF)	12.8
CHINA PEOPLES REPUBLIC OF (GOVERNMENT)	4.4
ITALY (REPUBLIC OF)	2.8
FRANCE (REPUBLIC OF)	2.8
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION 2	2.7
UNIFORM MBS	2.3
GERMANY (FEDERAL REPUBLIC OF)	2.1
SPAIN (KINGDOM OF)	1.9
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (GOVERNMENT)	1.7

Top 10 Issuers held by ESG score

	ESG Score
DEUTSCHE BOERSE AG	10.0
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	10.0
KONINKLIJKE KPN NV	10.0
AKZO NOBEL NV	10.0
ASSICURAZIONI GENERALI SPA	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

Quality

	Fund %	Benchmark %
Aaa	43.6	43.9
Aa	14.1	14.2
A	28.3	27.7
Baa	12.7	12.6
Ba	0.0	0.0
NR	1.2	1.6

Maturity Exposure

	Fund %	Benchmark %
< 5	41.66	40.95
5 - 10	32.72	32.04
>= 10	25.62	27.01

Country Exposure

	Fund %	Benchmark %
US	38.67	41.86
Japan	13.41	13.36
China	5.55	5.59
Germany	4.27	4.48
France	5.24	5.19
UK	4.72	4.55
Italy	3.16	3.05
Canada	3.54	3.50
Other	21.44	18.42

ESG Sector Score

	Fund	Benchmark
Treasuries	6.36	6.35
Government Related	6.52	6.47
Corporates	5.69	5.54
Securitized	5.38	5.35

ESG Score Breakdown

	Fund	Benchmark
Environmental	5.60	5.48
Social	7.05	7.03
Governance	6.37	6.36

Green Bonds Exposure

	Fund %	Benchmark %
Green Bonds	2.40	1.48

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	532 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 1 August 2019.

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