iSHARES ESG GLOBAL BOND INDEX FUND

iShares by BLACKROCK®

FUND UPDATE **28 February 2023**

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)	-1.82	-1.19	0.19	-9.64	-4.10	-	-2.56
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-1.81	-1.14	0.26	-9.70	-4.18	-	-2.58
Outperformance (Gross of Fees)	0.00	-6.84	-0.07	0.06	0.09	-	0.02
iShares ESG Global Bond Index Fund (Net of Fees) (Class D)	-1.83	-1.24	0.16	-9.82	-4.30	-	-2.78
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-1.81	-1.14	0.26	-9.70	-4.18	-	-2.58
Outperformance (Net of Fees)	-0.02	-0.10	-0.10	-0.12	-0.12	-	-0.20

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 February, the inversion of the US 2s10s curve worsened to -100 bps as the upside surprises from inflation and the labor market pushed the market to expect the Federal Reserve (Fed) to remain higher for longer. 2-year Treasury sold off ~61 bps to 4.92% while 10-year rates jumped ~42 bps to 3.92%. January Headline CPI increased to ~0.5% MoM pushing the annual run rate down to ~6.4% YoY. The uptick was driven by rising energy prices compiled with an increase in broad sectors within both goods and services. Core CPI surpassed consensus forecasts at ~0.4% MoM and ~5.6% YoY. This movement was driven by an increase in core goods ex-autos such as strength in apparel and medical goods. Despite the slight dip in core services, it continues to be a key figure for the Fed in its effort to bring down inflation. For the labor market, the Non-Farm Payroll data printed a dramatic increase of ~517k, resulting in the unemployment rate coming in at the lowest in over five decades at ~3.4%.

The S&P Global US Services PMI saw a minimal increase of 0.2 points for the final January data, which drove the S&P Global US Composite PMI to end at 46.8 points MoM. Following the increase in services for manufacturing, the sector saw an increase in business activity based on the ISM Services Index, which surpassed surveyed expectations of ~50.5 and instead ended at 55.2 points MoM. The Federal Reserve (Fed) stepped down the size of its rate hike, as expected, on February 1st and raised the Federal Funds rate by 25 bps to a target range of 4.50% to 4.75%. While Chair Powell did recognize that the trend for inflation is moving in the right direction, he reiterated the need for ongoing increases in the target range. Chair Powell also pushed back against market expectations that the Fed will cut rates later in the year as inflation eases and economic growth slows. Fed officials were seen generally more hawkish over February after data showed the economy continues to be strong and inflation likely sticky, with some officials favoring a half-point hike in March and signaled that interest rates may potentially need to be increased further.

The US 10-year Treasury opened at 3.51% and increased throughout the month, closing 41bps higher in yield at 3.92%. The market repricing of the Fed expectations was the main theme in February. We started with the FOMC which was best summarized as a hawkish statement followed by a dovish presser. Post FOMC, the bullish tone quickly reversed with strong data throughout the month. The market priced a higher peak FFs rate and pushed back rate cut expectations into 2024. The 2s10s curve decreased throughout the month, ending 19 bps lower at -100 bps. The 5s30s curve decreased by 29 bps, reaching -28 bps at month end.

Eurozone

After a strong start to the year in January, as markets welcomed falling inflation and hoped for news of the 'central bank pivot', resilient economic data in February led to a reverse, with bond yields moving higher and equity markets falling.

The ECB continued to raise rates in 50bp increments in February, raising interest rates to 2.5% They confirmed the intention to "stay the course in increasing interest rates significantly, at a steady pace, and keeping them at levels that are sufficiently restrictive to ensure a timely return of inflation to the 2% target". Despite the decline in headline inflation, driven by lower energy prices, ECB president Christine Lagarde is still concerned about core inflation and expressed explicitly the intention to increase rates by another 50bps in March.

European gas prices declined to EUR 50 per megawatt hour, which is down 40% in 2023 and 84% below the 2022 peak, as gas storage levels remained very high for this time of year, despite the lack of Russian gas supply. The lower cost of energy is driving an improvement in consumer and business confidence and has helped support the outperformance of European stocks. Consumer confidence in Europe has now rebounded from the extremely low level seen in late 2022, leading to speculation of a pick-up in consumption over the coming months. Some energy-intensive manufacturing sectors are also restarting some production that was suspended at the peak of the energy crisis.

The eurozone composite PMI continued to improve in February, increasing from 50.3 to 52.3 in February. The services sector was behind the strength, increasing to 53.0, up from 50.8. The Manufacturing PMI declined to 48.5 in February, down from 48.8 in January. This decline was due to a shortening of supplier delivery times, reflecting normalization of supply chain stresses. New export orders were weak however, pointing to weak foreign demand.

In light of strong economic and inflation data, investors reassessed their expectations for the path of monetary policy, with terminal rates repricing higher and priced rate cuts coming out of the market. At the end of the month, markets price the terminal rate for the ECB at 4%, with the Fed at 6% and the BoE at 5.5%. 10-year yields on German, US and UK debt also rose 37bp, 41bp and 49bp respectively. Spreads on European government bonds tightened over February, unable to keep up with the moves in bunds. Inflation markets also repriced, with the10-year German inflation breakeven rising 37bp to 2.51%.

UK

February proved a busy month with all three of the major central banks raising their respective interest rates. Over the month UK data proved positive for the economy with inflation showing signs of cooling, the service sector growing at its fastest pace in eight months - boosted by stronger business confidence and improved economic outlook and the UK FTSE 100 Index hitting a record high. The key takeaway from the month was seemingly the Bank of England (BoE) being the only central bank able to remain dovish as Core CPI in the US and Europe surprised to the upside alongside strong US data. The Monetary Policy Committee (MPC) indicated the end of their hiking cycle was likely near if the trend in data continued.

The Bank of England raised interest rates by another half a percentage point to 4% in a 7-2 vote, while expecting a shorter and shallower recession. The UK narrowly avoided a recession as Q4 GDP flatlined at 0% after a previous quarter of contraction at -0.2%. Annual GDP grew at 0.4% YoY while contracting by -0.5% MoM. Annual inflation fell to 10.1% YoY from 10.5% was expected at 10.3% (third month in a row from its 41-year high of 11.1% in October) while MoM CPI slowed to -0.6%. Core CPI also slowed to 5.8% YoY from 6.2%, while MoM was -0.9%. The composite PMI from S&P Global/CIPS rose to an eight-month high of 53.0 from 48.5, economists had predicted an increase but only to 49.0.

Japan

JGB yield rose mainly via 4-10yr zone and fell and curve flattened in the super long end. 10Yr yield ended the month 1bp higher at 0.50%. The Japanese bond yields also came under upward pressure and were stuck around the 0.5% area as bond yields in the U.S. and European markets trended higher given strong economic indicators in the U.S. Bank of Japan governor nominee Kazuo Ueda delivered balanced speech, calling the current monetary policy is appropriate while acknowledging the side effects of the YCC.

The overall inflation ex-perishable food was +4.2% YoY in January, remained above the central bank's 2% target for tenth straight month as energy and food prices continued to be high. The unemployment rate remained relatively low at 2.4% in January.

Risk Characteristics

	Fund	Benchmark
Average Maturity (Years)	8.49	8.67
Modified Duration (Years)	6.79	6.79
Norminal Yield (%)	3.85	3.80
Convexity	0.85	0.87

Top 10 Issuers (%)

	Weight (%)
UNITED STATES TREASURY	19.5
JAPAN (GOVERNMENT OF)	12.9
UNIFORM MBS	9.5
CHINA PEOPLES REPUBLIC OF (GOVERNMENT)	5.8
ITALY (REPUBLIC OF)	2.8
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION 2	2.7
FRANCE (REPUBLIC OF)	2.7
CASH & EQUIVALENTS	2.4
GERMANY (FEDERAL REPUBLIC OF)	2.1
SPAIN (KINGDOM OF)	1.9

Top 10 Issuers held by ESG score

	ESG Score
SOCIETE GENERALE SA	10.0
VONOVIA SE	10.0
AKZO NOBEL NV	10.0
ASSICURAZIONI GENERALI SPA	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	43.4	43.5
Aa	13.9	13.9
A	29.6	28.3
Baa	12.9	12.8
Ba	0.0	0.0
NR	0.3	2.1

Maturity Exposure

	Fund %	Benchmark %
< 5	42.59	41.46
5 - 10	31.98	31.90
>= 10	25.43	26.64

Country Exposure

	Fund %	Benchmark %
US	43.76	41.50
Japan	13.56	13.47
China	5.79	5.99
Germany	4.33	4.40
France	5.19	5.20
UK	4.58	4.38
Italy	3.18	3.07
Canada	3.47	3.45
Other	16.15	18.54

ESG Sector Score

	Fund	Benchmark
Treasuries	6.15	6.17
Government Related	6.49	6.44
Corporates	5.70	5.54
Securitized	5.37	5.35

ESG Score Breakdown

	Fund	Benchmark
Environmental	5.39	5.30
Social	6.75	6.73
Governance	6.32	6.34

Green Bonds Exposure

	Fund %	Benchmark %
Green Bonds	2.41	1.54

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	493 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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