

iSHARES ESG GLOBAL BOND INDEX FUND



FUND UPDATE

31 March 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)	2.16	2.35	2.35	-5.72	-3.02	-	-1.93
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	2.14	2.41	2.41	-5.72	-3.11	-	-1.95
Outperformance (Gross of Fees)	0.02	-0.05	-0.05	-0.01	0.09	-	0.02
iShares ESG Global Bond Index Fund (Net of Fees) (Class D)	2.14	2.31	2.31	-5.91	-3.13	-	-2.15
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	2.14	2.41	2.41	-5.72	-3.11	-	-1.95
Outperformance (Net of Fees)	0.00	-0.10	-0.10	-0.20	-0.03	-	-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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Performance Summary

Market Review

US

March was a pivotal month for the trajectory of Federal Reserve tightening and economic outlook. What seemingly started as a continuation of February, quickly reversed course when cracks started to emerge in the US Banking System. The narrative initially centered around Silicon Valley Bank (SVB), which fell victim to an old-fashioned bank run amidst fears that it wouldn't be able to meet liquidity needs of its depositors on March 8th. By March 10th, regulators took control of the bank, shutting it down. This made the bank's collapse the largest since 2008. By March 12th, the US Government announced it would backstop all SVB deposits. However, the damage was done, and fears quickly spread to all US regional banks. Global banking concerns were quickly exacerbated further when, on March 15th, a top investor in Credit Suisse announced it would not be providing further liquidity to the Global Systemic Important Bank (G-SIB). As a measure of confidence, the bank tapped a \$54bn credit line with the Swiss National Bank and began a \$3bn tender offer. These measures did little to quell fears of the bank's viability, and Swiss regulators began urging other measures, including a takeover. On March 19th, the government-driven sale to UBS Group AG was announced. Part of the deal was writing down all of Credit Suisse's Additional Tier 1 Debt (AT1) (whereas typically bond holders take priority over shareholders).

It quickly became clear that monetary policy tightening in this cycle was starting to have an impact on banking systems. As a result, recessionary fears mounted, and markets quickly priced out further tightening for this year. Front-end yields in the US collapsed. UST 2-yr yield rallied by 83bps MoM to 4.06%. In peak to trough terms, it had reached a 15yr high on March 8th of 5.05% and reached as low as 3.76% on March 23rd: a difference of 129bps. Intraday swings during peak volatility were as high as 40bps. The UST 10-yr yield rallied by 53bps MoM to 3.48%. Ultimately, the market priced out nearly all further rate hikes for 2023 after the March 22nd meeting, and priced in a further 43bps of cuts for 2023. At month end, the market was expecting 55bps of rate cuts in 2023.

Ultimately, on March 22nd, the FOMC raised its policy rate by 25bps in a unanimous decision. The market had priced in 85% odds of such a move. This hike brought the target range to 4.75%-to-5.00% and brings cumulative tightening to 475 bps. The unchanged median projection of the terminal rate suggests that this was the final hike in the cycle, or that the Fed could pause in May. In the statement, there were some notable tweaks. Namely, the Committee changed the phrase that they anticipate further increases to be appropriate to that it "anticipates that some additional policy firming may be appropriate". The Committee also added that "The U.S. banking system is sound and resilient." But it also acknowledged that "recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain." Other measures taken by the Fed in March was the creation of a new Bank Term Funding Program (BTFP), offering loans of up to one year to banks valued at par. These actions reflect the Fed's goal to maintain stability in the US Banking System, while also aiming to restore price stability to the economy.

Amidst all of this, inflation data was mixed. While headline CPI rose by 0.4%, easing from the month prior. The yearly inflation rate fell to 6.0% from 6.4%. Of more concern was core prices which jumped by 0.5% after two monthly 0.4% advances. The yearly rate dropped slightly to 5.5%. Both rent measures were stubborn to roll over, with primary rent accelerating by 0.8% and owner's equivalent rent up by 0.7%. These were offset by a decline of 2.8% in used vehicle prices. Elsewhere, the Employment Situation also underscored resilience. Payrolls rose by 311k, fairly modest compared to the January figure of over half a million. With an uptick in the participation rate, the unemployment rate lifted two tenths to 3.6%. Average hourly earnings came in on the light side, up just 0.2%, the weakest in a year. However, base effects from a year prior pushed the yearly rate up to 4.6%.

Eurozone

Markets were shaken in March as uncertainty in relation to the banking sector brought into question the economies fragility to higher interest rates. Beginning in the United States with Silicon Valley Bank and other regional banks, concern spread to Europe accumulating in UBS taking over Credit Suisse.

Government bonds displayed their diversification benefits with yields falling as investors sought safety. Ten-year German bund yields dropped materially whilst at the front end of the curve, investors re-assessed the degree of future interest rate hikes given the emergence of cracks in the financial system. The terminal rate of the cycle was revised lower with peak ECB deposit rate forecast falling to 3.50% (from 4.00%) although in contrast to US rates, no cuts are expected in 2023.

Despite the volatility in credit markets the ECB continued raising interest rates with benchmark deposit rate raised by 0.50% to 3.00%. A previous commitment to keep "raising interest rates significantly at a steady pace" was dropped although President Lagarde stressed future policy would be dictated by data, thus leaving the opportunity for additional tightening. Entering a new phase whereby monetary policy is used to control inflation and financial stability instruments to control financial stability, central banks are facing increased challenges if the path of interest rates are higher.

Eurozone inflation surprised to the downside (6.9% vrs 7.1%) however core (excluding energy and food prices) appears resilient, matching analysts estimates and increasing to a Eurozone high (5.7%). The latter remains a concern for the ECB with wages accelerating by 5.7% in the final quarter of 2022 and unemployment rate at an all-time low of 6.6%. The conflicting nature of economic data versus emergence of financial risks ensured interest rate volatility returned to the fore with 2-year German bond yields witnessing their largest daily move on record, falling 50bps after the collapse of Silicon Valley Bank.

UK

A volatile month for global markets as March saw a banking crisis within US regional banks before making its way across the Atlantic with Credit Suisse being acquired by UBS. We also saw the three major central bank hike rates for the second month in a row. In the UK, while a large portion of the data over the month was positive for the economy, inflation unexpectedly increased after three consecutive downturns. The Bank of England (BoE) hiked rates by 25bps, yet risk markets managed to be the main driver for the move in yields, which finished lower on the month while credit spreads widened.

The start of the month saw the strongest PMI readings since June of last year with February's finalized composite number at 53.1. Finalized GDP for January beat expectations growing at 0.3% vs exp 0.1% following the retraction in December of -0.5%. The Bank of England raised interest rates by quarter of a percentage point to 4.25% in a 7-2 vote, the 2 voted for unchanged. The Banks messaging seemed less dovish than last month following the jump in inflation, "We don't know whether it's going to be the peak". The Banks governor Bailey later claimed if businesses increase prices to fight inflation the Bank might be forced to raise rates further.

The UK narrowly avoided a recession as Finalized Q4 GDP grew at 0.1% after a previous quarter of contraction at (-0.3%) while annual GDP grew at 0.6%. Annual inflation unexpectedly rose to 10.4% YoY from 10.1%, it was expected at 9.9% (a shock to the upside after three consecutive months showing inflation cooling from its 41-year high of 11.1% in October) while MoM CPI grew to 1.1%. Core CPI also increased to 6.2% YoY from 5.8% and MoM grew by 1.2% from -0.9%. BoE Governor Bailey expects inflation to fall "steeply" and dismissed the prospect of an imminent financial crisis when asked about the banking problems seen this month, stating the UK is not "at all in the place" it was before the 2008 crash albeit "we are in a period of heightened tension and alertness". The bank updated its forecast for UK growth for the second quarter of the year and expects a slight increase in GDP, from a month earlier predicting a contraction.

Japan

JGB yield rose mainly via 6-20yr zone and 10Yr yield ended the month 18bp lower at 0.32%. In the latter half of the month, the collapse of a medium-sized U.S. bank, concerns about a major Swiss bank, and fears about the wipeout of AT1 bonds in the takeover of the Swiss bank have increased uncertainty around the financial systems, resulting in more downward pressure on yields.

The overall inflation ex-perishable food was +3.1% YoY in February, and remained above the central bank's 2% target for eleventh straight month as food prices continued to be high. The unemployment rate remained relatively low at 2.6% in February.

Risk Characteristics

	Fund	Benchmark
Average Maturity (Years)	8.59	8.73
Modified Duration (Years)	6.91	6.88
Normal Yield (%)	3.50	3.49
Convexity	0.86	0.88

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)	2.9
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION 2	2.8
FRANCE (REPUBLIC OF)	2.6
GERMANY (FEDERAL REPUBLIC OF)	2.2
SPAIN (KINGDOM OF)	2.0
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (GOVERNMENT)	1.8

Top 10 Issuers held by ESG score

	ESG Score
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
DNB BANK ASA	10.0
DNB BOLIGKREDITT AS	10.0

Quality

	Fund %	Benchmark %
Aaa	43.4	43.5
Aa	14.1	14.0
A	29.8	28.2
Baa	12.8	12.7
Ba	0.0	0.0
NR	-0.1	1.6

Maturity Exposure

	Fund %	Benchmark %
< 5	41.88	41.47
5 - 10	32.88	32.33
>= 10	25.24	26.19

Country Exposure

	Fund %	Benchmark %
US	42.57	41.29
Japan	13.53	13.39
China	5.81	5.93
Germany	4.46	4.48
France	5.20	5.21
UK	4.79	4.47
Italy	3.17	3.09
Canada	3.48	3.45
Other	17.00	18.68

ESG Sector Score

	Fund	Benchmark
Treasuries	6.16	6.17
Government Related	6.51	6.43
Corporates	5.69	5.53
Securitized	5.40	5.40

ESG Score Breakdown

	Fund	Benchmark
Environmental	5.37	5.28
Social	6.75	6.74
Governance	6.33	6.34

Green Bonds Exposure

	Fund %	Benchmark %
Green Bonds	2.30	1.59

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	516 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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