# iSHARES ESG GLOBAL BOND INDEX FUND

iShares by BLACKROCK®

**FUND UPDATE** **30 April 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) | 0.34 | 0.65 | 2.71 | -2.59 | -3.32 | - | -1.80 |
| Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged | 0.38 | 0.67 | 2.79 | -2.55 | -3.40 | - | -1.81 |
| Outperformance (Gross of Fees) | -0.03 | -0.02 | -0.09 | -0.04 | 0.08 | - | 0.02 |
| iShares ESG Global Bond Index Fund (Net of Fees) (Class D) | 0.33 | 0.60 | 2.64 | -2.78 | -3.48 | - | -2.02 |
| Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged | 0.38 | 0.67 | 2.79 | -2.55 | -3.40 | - | -1.81 |
| Outperformance (Net of Fees) | -0.05 | -0.07 | -0.15 | -0.23 | -0.08 | - | -0.21 |

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 April, risks related to the looming U.S. debt ceiling deadline moved into focus. U.S. tax collections are trending roughly 30% below last year's level, suggesting the U.S. debt ceiling deadline could be reached as soon as the first half of June, as opposed to later in the summer. Markets have been responding, as evidenced by diverging yield patterns of 1-month and 3-month U.S. Treasury Bills, as well as the increased cost to purchase 1-year U.S. sovereign CDS. The 2011 debt ceiling episode indicates there is room for corporate credit spreads to widen, as the deadline approaches. Absent clarity on a path forward, the debt ceiling overhang is likely to be most pronounced for sectors and firms that derive a large portion of revenues and earnings from government spending. Notably, these developments are occurring against a backdrop where the cost of capital for corporate borrowers is already increasing and expected to remain elevated. This leaves refinancing risk and capital availability as key considerations for credit investors.

On the U.S. data front, March core CPI, released in April, rose 0.38% m/m, which was in line with expectations, but the details were more encouraging with trimmed mean CPI slowing to 0.23% m/m. Headline CPI came in softer than expected, inching up 0.05% m/m while y/y slowed to 4.98%. Headline y/y is now below core CPI y/y. OER and rent inflation came in at 0.48% and 0.49% m/m, respectively, breaking lower from the ~0.7% trend since the middle of 2022. While one month is not a trend, this is an early sign that new-tenant rent softness is finally passing through into all-tenant measures, and may mark the beginning of the next phase of the disinflationary process in the US. There were mixed developments elsewhere. Core goods inflation grew 0.2% m/m as stubborn core goods ex autos inflation (+0.3%) offset muted autos. Core services and core services ex shelter moderated to 0.45% m/m and 0.29%, respectively. Overall, the March employment report, released in April, was a solid report with signs of slowing hiring and continued labor supply recovery. Total nonfarm payrolls rose 236K in March; February was little revised but January was revised down further (still a very strong

472K gain). The moderation in payroll gains continued with the 6-month average stepping down to 315K. In the household survey, the unemployment rate stayed within its recent range at 3.5%, and the participation rate improved further to 62.62%.

The US 10-year Treasury opened at 3.47% and slightly decreased throughout the month, closing 5bps lower in yield at 3.42%. The US rates market settled into a range in April. The 10y note traced a ~40bp intramonth range and ultimately finished close to unchanged. The Bloomberg US Investment Grade Credit Index tightened by 3bps to 126bps, resulting in a monthly excess return of 21bps. The Agency MBS index modestly underperformed versus similar duration Treasuries. The 2s10s curve decreased throughout the month, ending 3 bps lower at -59 bps. The 5s30s curve increased by 12 bps, reaching 19 bps at month end.

## Eurozone

The absence of a European Central Bank meeting during April ensured economic data releases drove expectations for degree of tightening in May. Terminal rate for this cycle suggests at least 75bps of additional tightening remains with close to 25bps priced for the meeting in May. Mixed data continues to create uncertainty to the future path of central bank policy with ECB already raising rates by 350bps in under 1 year.

Supporting a slower pace of tightening, eurozone growth in the 1st quarter of 2023 disappointed with economy expanding by 0.1%. Somewhat surprising, Germany, the region's largest economy failed to grow after a contraction of -0.5% in Q4 2022 with markets subsequently pairing their expectations of future ECB tightening with 2 year German yields falling by 0.16%. Of positive note was data from periphery countries with Portugal, Italy and Spain registering stronger than expected growth during Q1.

Of concern to the ECB are elevated wages and inflation data with ECB member Pierre Wunsch confirming "we are waiting for wage growth and core inflation to go down, along with headline inflation, before we can arrive at the point where we can pause". Hourly wages rose by a record 5.7% in 2022 Q4 with German trade union Verdi (serving 2.5mio public sector workers) recently agreeing a two year deal for its members, equating to an annual pay rise of approximately 5%. Inflationary pressures are mixed, although yearly inflation increased to 7% in April (from 6.9% in March), core inflation which strips out energy and food prices eased to 5.6% (from 5.7%).

Forward looking data is also mixed, the flash estimates of Eurozone Purchase Managers Index (a monthly survey of companies regarding current and future business conditions) showed a divergence between manufacturing and services. Since the start of the series in 1998 there has never been such a divergence with manufacturing in contraction and services in expansion territory. The latest ECB Bank Lending Survey also provided the ECB with greater pause for thought with demand for loans from eurozone businesses falling at the fastest rate since 2008.

Despite very little difference between rates at the start and end of April (German 10 year 2.26% to 2.31%), we continued to see volatility intramonth. Assisted by diminishing banking sector concerns and robust economic data, fixed income markets sold off throughout the first half of April. Impacted to a greater extent from central bank policy action, front end yields (2-year Germany) rose around 50bps before GDP data saw markets rally once more. There continues to be limited volatility in Eurozone Government Bond spreads, Italy-Germany 10-year remaining below 190bps whilst impact from Fitch downgrading France to AA- was negligible.

First quarter corporate earnings were better than feared with initial data demonstrating a preference to weight price over volume. Uncertainty persists to whether Q2 will witness a material deterioration but with unemployment low, resilience of demand evident and prices of raw materials falling there are tailwinds for the corporate sector.

## UK

April was a relatively quiet month for headlines alongside no major Central Bank meetings allowed volatility to subside after a tumultuous March. It was a strong month for the UK economy with a number of economic releases beating expectations including inflation still well above its target 2% for the Bank of England (BoE). Market pricing for the UK's terminal rate started the month circa 4.5% and ended the month pricing circa 5%, with the next month's Monetary Policy Committee (MPC) rate decision now seen as a done deal for a 25bps increase and anticipation of another two 25bps hikes by September. Ultimately the month's data showed how unlikely it will be for the BoE to cool tightening anytime soon.

Following a quiet start to the month with two shortened weeks for Easter, the first economic release for the UK was GDP which reported zero growth month-of-month (MoM) however previous month GDP was revised upwards to +0.4%. Wage growth in the UK was 6.6% following three consecutive strong months and just below the highest level on record, excluding pandemic months. Consumer confidence came in at its highest level since Russia's invasion of Ukraine, a 14-month high and third consecutive improvement. The focal point for April was inflation, year-on-year (YoY) 10.1% vs expected 9.8%, down from 10.4% still running above 10% while MoM grew at 0.8% vs expected 0.5%, down from 1.1%. Core and services reading remained stickier than expected as Core CPI held at 6.2% YoY, expected 6.0% while MoM grew at 0.9%, expected 0.6% down from 1.2%. Retail sales were the only downbeat number on the month -1.0% MoM down from +1.4%, this was largely blamed on the recent poor weather. UK gilt yields trended higher across the curve (averaging over 25bps) throughout the month (unlike those in the US and Europe) while the BoE's continues to expect inflation to subside.

## Japan

JGB yield declined via 7yr and longer-than 10yr zone and 10Yr yield ended the month 7bp higher at 0.39%. After upward pressure on yields intensified at the beginning of the month mainly due to domestic technical factors, including a rebound from the decline in yields toward the end of the fiscal year mainly on the longer-than 10yr zone, and a correction in the distortion around 10yr triggered by the issuance of newly issued 10yr bonds, the market remained in a relatively narrow range. At the end of the month, however, the BOJ's policy meeting resulted in no change in policy, and the bond market was largely bid up.

The overall inflation ex-perishable food was +3.1% YoY in March, and remained above the central bank's 2% target for twelfth straight month as food prices continued to be high. The unemployment rate remained relatively low but got slightly higher at 2.8% in March.

## Risk Characteristics

| | Fund | Benchmark |
|---|---|---|
| Average Maturity (Years) | 8.56 | 8.71 |
| Modified Duration (Years) | 6.89 | 6.87 |
| Norminal Yield (%) | 3.49 | 3.48 |
| Convexity | 0.85 | 0.87 |

## Top 10 Issuers (%)

| | Weight (%) |
|---|---|
| UNITED STATES TREASURY | 19.4 |
| JAPAN (GOVERNMENT OF) | 12.6 |
| UNIFORM MBS | 9.4 |
| CHINA PEOPLES REPUBLIC OF (GOVERNMENT) | 5.7 |
| ITALY (REPUBLIC OF) | 2.9 |
| GOVERNMENT NATIONAL MORTGAGE ASSOCIATION 2 | 2.8 |
| FRANCE (REPUBLIC OF) | 2.6 |
| GERMANY (FEDERAL REPUBLIC OF) | 2.3 |
| 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 | 43.5 | 43.7 |
| Aa | 13.9 | 14.1 |
| A | 29.4 | 27.8 |
| Baa | 13.0 | 12.8 |
| Ba | 0.0 | 0.0 |
| NR | 0.1 | 1.6 |

## Maturity Exposure

| | Fund % | Benchmark % |
|---|---|---|
| < 5 | 41.60 | 41.10 |
| 5 - 10 | 33.69 | 33.92 |
| >= 10 | 24.71 | 24.98 |

## Country Exposure

| | Fund % | Benchmark % |
|---|---|---|
| US | 42.07 | 41.40 |
| Japan | 13.21 | 13.17 |
| China | 5.69 | 5.84 |
| Germany | 4.53 | 4.54 |
| France | 5.25 | 5.30 |
| UK | 4.67 | 4.41 |
| Italy | 3.25 | 3.11 |
| Canada | 3.37 | 3.46 |
| Other | 17.96 | 18.76 |

## ESG Sector Score

| | Fund | Benchmark |
|---|---|---|
| Treasuries | 6.15 | 6.17 |
| Government Related | 6.50 | 6.43 |
| Corporates | 5.69 | 5.54 |
| Securitized | 5.39 | 5.40 |

## ESG Score Breakdown

| | Fund | Benchmark |
|---|---|---|
| Environmental | 5.38 | 5.29 |
| Social | 6.76 | 6.74 |
| Governance | 6.31 | 6.33 |

## Green Bonds Exposure

| | Fund % | Benchmark % |
|---|---|---|
| Green Bonds | 0.10 | 0.03 |

# 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 | 522 mil |
| Buy/Sell Spread | 0.10%/0.10% |
| Tracking Error (3 Years p.a.) | 0.15% |

| 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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