

iSHARES ESG GLOBAL BOND INDEX FUND



FUND UPDATE

30 June 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)	-0.25	-0.45	1.89	-1.53	-3.77	-	-1.92
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.21	-0.39	2.01	-1.48	-3.85	-	-1.93
Outperformance (Gross of Fees)	-0.04	-0.07	-0.12	-0.06	0.08	-	0.01
iShares ESG Global Bond Index Fund (Net of Fees) (Class D)	-0.26	-0.50	1.79	-1.73	-3.93	-	-2.14
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.21	-0.39	2.01	-1.48	-3.85	-	-1.93
Outperformance (Net of Fees)	-0.05	-0.11	-0.22	-0.25	-0.09	-	-0.22

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

In June, the unemployment rate saw its first deviation this month increasing 0.3% up to ~3.7% while the labor force participation rate was unchanged at 62.6%. Hiring continued to be robust in the US as June's nonfarm payrolls print marks the 14th consecutive month where payrolls have surpassed surveyed expectations. After ten consecutive rate hikes over the past 1.5 years, the Fed decided on their first pause during June's FOMC meeting leaving the target range between 5% and 5.25%. Following the announcement, they hawkishly revised the end of year fed funds target range median dot-plot projection to end between 5.50% and 5.75%, suggesting two additional rates hikes for the year. These movements brought the 2024 and 2025 year-end ranges higher, endorsing the higher for longer narrative the Fed has communicated. Additionally, Chair Powell highlighted the difficulties the Fed is facing in managing monetary policy alongside the ambiguity of the lagged effects, potential credit tightening, and the resiliency of the overall macro economy in the United States. Later into the month, CPI printed slightly above consensus, driven by used car prices, with core CPI increasing while headline CPI slowed over the month. Core CPI remains above 5%, slightly lower than last month.

The US 10-year Treasury opened at 3.60% and increased throughout the month, closing 24bps higher in yield at 3.84%. US rates stayed in range for the month of June. Following the CPI print, front-end yields initially sold off while hawkish updated dots indicated more hikes. Rates later eased following the Fed's press conference but the narrative of higher for longer rates is still likely to stress risk assets more than previously expected. The 2yr yield saw a consistent increase before ending May at 4.88%. The 10yr note pushed higher, but at a smaller magnitude, bringing the 2s10s curve to a monthly low of -107bps. The 5s30s curve flattened by 42bps, reaching -30bps at month end.

Eurozone

Interest rates in the eurozone reached their highest level since 2001 after the ECB raised rates by 25bps in June. In just under a year, the deposit rate has risen from -0.50% to 3.50% with market fully pricing another hike in July after President Lagarde commented rates “still have ground to cover”. Labour market strength saw the ECB revise their core inflation forecasts upward with 5.1%, 3% and 2.3% expected in 2023, 2024 and 2025 respectively. The ECB also confirmed it will halt reinvesting the proceeds of its €3.2tn asset purchase program in July, an action which is expected to assist shrinking their balance sheet by €25bn a month.

Driven by resilient economic data and sticky inflation (specifically in the UK), rates increased through June. European curves flattened (2s10s around -80bps) with almost 50bps of additional hikes priced by the market. Two-year German yields are around 3.20% although remain below year-to-date highs (3.34%) reached prior to disruption in the banking sector. Despite the increase in yields, periphery spreads are resilient, German-Italy contracting with expectations of limited issuance for the remainder of 2023 assisting Italian bonds.

Evidence of inflation and higher rates impacting the real economy are becoming more apparent after the Eurozone fell into recession over winter. The bloc contracted by 0.1% in Q1 after shrinking in the final three months of 2022. Largely a result of activity in Germany, recent data demonstrates 8400 firms were pushed into insolvency in the first half of the year, up 16.2% y/y and the largest increase in more than 20 years. In addition, German house prices fell by a record 6.8% as financing costs and economic uncertainty drove down demand. In survey-based indicators, both services and manufacturing Purchase Managers Index disappointed, with the former most noticeable given the rotation of consumer demand into this sector.

Inflation remains elevated, however there are some positive signals from the latest round of eurozone data. From a headline perspective, HICP fell from 6.1% in May to 5.5% however further downside is anticipated with base affects of energy inflation yet to have full impact and inflation rate of food, alcohol and tobacco declining (down from 12.5% to 11.7% in June). Although core inflation rose from 5.3% to 5.4% and services jumped from 5.0% to 5.4%, the latter was completely due to the base affects from the German reduced transportation ticket introduced in 2022, and thus not something which should concern the ECB.

Despite the number of members on the ECB's rate-setting governing council, messaging has remained fairly in line and underlying hawkish tone noticeable. Perhaps influenced by events within the UK market where inflation remains at 8.7% or a strong labour market and fears of a wage-price spiral, there is a resilience to continue raising rates with market priced accordingly.

UK

Another tough month for the UK as gilt yields continued to gap higher, almost a déjà vu of May. We witnessed the thirteenth consecutive rate hike by the Bank of England (BoE), inflation continuing to outpace expectations, and GDP print below estimates. Macro was largely the story once again while credit was relatively muted compared to the moves seen in gilt yields, as UK 2y yields surpassed 5% for the first time since 2008. The market has gone from pricing the BOE being forced to cut rates next year to now hiking another 130bps after inflation beat expectations for the fourth month in a row. Monthly data continues to prove the BoE is unlikely to cool their tightening anytime soon.

The start of the month saw UK GDP grow by 0.5% YoY vs exp 0.6% while MoM was in line with expectation at 0.2% growth. Inflation once again surprised to the upside with core at 7.1% YoY vs expected 6.8%, its highest rate for 31 years. Headline inflation was unchanged from the previous month at 8.7% YoY vs expected 8.4%. Energy bills and food prices remain the main culprit for high inflation, while experts believe food prices are due to fall in the coming months. The biggest event for the month was the BoE's Monetary Policy Committee (MPC) hiking rates 50bps to 5%, the highest since September 2008 in a 7-2 vote, beating market expectations of a 25bp hike as inflation continued to surprise to the upside in both core and headline components. The UK is now the only country in the G7 with rising inflation, all the while UK government debt exceeded 100% of GDP for the time since 1961.

Japan

JGB yields declined moderately across the curve in the month. 10yr yield ended the month 3.5bp lower at 0.395%. While there was moderate upward pressure on yields in the U.S. and European bond markets on the back of the central banks' continued hawkish stance, in contrast, the Bank of Japan continued to maintain its easing policy, resulting in a small decline in yields in the domestic bond market.

The overall inflation ex-perishable food was +3.2% YoY in May, and remained above the central bank's 2% target for fourteenth straight month as food prices continued to be high. The unemployment rate remained relatively low at 2.6% in May.

Risk Characteristics

	Fund	Benchmark
Average Maturity (Years)	8.52	8.74
Modified Duration (Years)	6.81	6.84
Norminal Yield (%)	3.70	3.82
Convexity	0.86	0.88

Top 10 Issuers (%)

	Weight (%)
UNITED STATES TREASURY	19.2
JAPAN (GOVERNMENT OF)	12.0
UNIFORM MBS	9.2
CHINA PEOPLES REPUBLIC OF (GOVERNMENT)	5.3
ITALY (REPUBLIC OF)	2.9
UK CONV GILT	2.8
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION 2	2.7
None	2.4
FRANCE (REPUBLIC OF)	2.4
GERMANY (FEDERAL REPUBLIC OF)	2.3

Top 10 Issuers held by ESG score

	ESG Score
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	10.0
ADOBE INC	10.0
AKZO NOBEL NV	10.0
ASSICURAZIONI GENERALI SPA	10.0
BUNGE LIMITED FINANCE CORPORATION	10.0
COMPAGNIE GENERALE DES ETABLISSEMENTS MICHELIN SCA	10.0
COUNCIL OF EUROPE DEVELOPMENT BANK	10.0
CRH FINANCE DAC	10.0
CROWN CASTLE INC	10.0
DANONE SA	10.0

Quality

	Fund %	Benchmark %
Aaa	42.8	43.8
Aa	14.2	14.2
A	28.8	27.6
Baa	13.1	12.8
Ba	0.0	0.0
NR	1.1	1.5

Maturity Exposure

	Fund %	Benchmark %
< 5	42.44	41.38
5 - 10	32.80	33.56
>= 10	24.76	25.06

Country Exposure

	Fund %	Benchmark %
US	38.36	41.42
Japan	12.64	12.61
China	5.75	5.86
Germany	4.60	4.59
France	5.30	5.33
UK	4.58	4.40
Italy	3.28	3.19
Canada	3.42	3.48
Other	22.07	19.13

ESG Sector Score

	Fund	Benchmark
Treasuries	6.15	6.17
Government Related	6.52	6.44
Corporates	5.63	5.51
Securitized	5.39	5.38

ESG Score Breakdown

	Fund	Benchmark
Environmental	5.41	5.29
Social	6.72	6.73
Governance	6.30	6.31

Green Bonds Exposure

	Fund %	Benchmark %
Green Bonds	0.09	0.04

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	545 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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