iSHARES ESG SCREENED GLOBAL BOND INDEX FUND

iShares by BLACKROCK®

FUND UPDATE **31 August 2023**

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
iShares ESG Screened Global Bond Index Fund (Gross of Fees) (Class E)	-0.30	-0.62	1.51	-1.56	-3.96	-	-1.93
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.28	-0.58	1.63	-1.45	-4.04	-	-1.94
Outperformance (Gross of Fees)	-0.01	-0.04	-0.12	-0.11	0.08	-	0.00
iShares ESG Screened Global Bond Index Fund (Net of Fees) (Class D)	-0.31	-0.67	1.37	-1.75	-4.14	-	-2.16
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.28	-0.58	1.63	-1.45	-4.04	-	-1.94
Outperformance (Net of Fees)	-0.03	-0.09	-0.26	-0.31	-0.10	-	-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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- Market Insights & Commentary
- Fund Performance
- Unit Prices

Performance Summary

Market Review

US

There was no Federal Open Market Committee (FOMC) meeting in August; however, Chair Powell delivered opening remarks at this year's Jackson Hole Economic Symposium. Chair Powell acknowledged the recent two months of improvement in sequential core inflation and indicated that interest rates are now high enough to be "restrictive," adding that real interest rates "are now positive and well above mainstream estimates of the neutral policy rate." With that being said, the Chair emphasized proceeding carefully and with data dependence, highlighting that persistently above-trend economic growth and resilience could put further progress on inflation at risk and warrant further tightening of monetary policy. The U.S. 2s10s Treasury curve ended August with -75bps of inversion, with the 2-year Treasury at 4,.87% and 10-year rates higher at 4.11%. Notably, the curve has bear steepened by 16bps throughout the month, driven by resilient economic data and stronger implications of a soft landing. Long end yields have also risen by plans for increased Treasury issuance and Fitch Ratings' move to downgrade the U.S. credit rating from AAA to AA+

On the U.S. data front, July core CPI print was once again below consensus expectations, coming in at 0.16% MoM and 4.7% YoY. Headline CPI rose 0.17% MoM in July, little changed from 0.18% in June and modestly rebounded the YoY rate to 3.2% from 3.0%. Overall, the report keeps the Fed on track to hold policy rates unchanged as it provided further evidence that underlying inflation is on a lower trend.

The July U.S. payrolls also registered lower than expectations. Total nonfarm payrolls employment in July added 187K jobs, below consensus expectations of 200K and prior months were revised downward. Despite average hourly earnings increasing 0.42% (leaving the YoY rate at 4.4%), the unemployment rate fell 7bps over the month to 3.5% and overall participation rate stayed flat at 62.6% for the fifth month in a row. Later in the month, job openings data showed number of available positions decreased to 8.83 million from 9.17 million in June, marking the sixth decline in the last seven months. With falling job openings and unemployment rate still within the range from last year, the Beveridge Curve continues to trend in the south direction of soft landing.

Away from the U.S., no monetary policy meetings took place for BOJ and the ECB. At Jackson Hole, Governor Ueda continued to stress that underlying inflation in Japan remains below the 2% target; despite core consumer inflation hitting 3.1% YoY in July and staying above the 2% target for the 16th straight month, inflation is "expected to decline" from here and as a result, no further policy changes are expected for the remainder of this year. For the ECB, President Lagarde reinforced that they are committed to taking decisions one meeting at a time, airing on the side of date dependency while measuring the impact of existing monetary policy.

Eurozone

The absence of an ECB meeting in August ensured markets absorbed new economic data by adjusting pricing for a further interest rate hike in September. Consistent with themes of 2023, conflicting growth, inflation and labour market data ensure uncertainty remains elevated although market pricing places greater probability of a pause next month.

Eurozone economic data deteriorated further with sentiment driven surveys (purchasing managers' index) falling to a 33-month low. Of note was the contraction within the services sector with the area beginning to follow the trend of manufacturing lower. German companies suffered the largest decline in activity with a separate measure of business confidence falling to a 10-month low. Other data points supported the slowdown in Germany with trucking activity falling to levels seen in the pandemic. On a broader scale, the decline in private lending and bank deposits within the eurozone highlights the degree to which monetary tightening is beginning to impact the real economy.

Labour data continues to reflect a market with little slack as unemployment in the eurozone fell to an all-time low of 6.4%. Despite the weakness in Germany, wages rose at a record pace of 6.6% in the second quarter suggesting a level where real wages are now flat after 3 years of decline. Whilst this may provide additional pressure for the ECB September meeting, fears of these events supporting a wage price spiral will be minimised given the data includes one off minimum wage rises and bonuses. In addition, eurozone negotiated wages rose 4.3% in the second quarter, slightly slower than in the first quarter.

Headline inflation in the eurozone remained at 5.3%, slightly above expectations of 5.1% however core inflation (stripping out energy and food prices) softened to 5.3%. Assisted by services inflation falling, the print was seen as dovish with euro weakening and 2-year yields dropping. Supporting the belief inflation should continue to soften, weaker energy prices saw German producer price fall at the fastest pace since 2009. The trend in energy prices did change course during the month with gas prices rising by 40% at one point due to industrial action creating disruption at Australian Liquid Natural Gas plants. However, with EU already hitting its storage target more than two months ahead of schedule there is more immunity to disruption in global supply chains than last year.

In rates markets, the narrative in August was dictated by events in the US where longer end yields climbed higher, fuelled by factors ranging from possible higher neutral rate, volume of supply coming to the market or term premia required from owning longer duration assets, Treasuries underperformed the broader market. Ten-year yields hit their year-to-date highs (4.33%) however the sell-off was better contained in Europe with 10-year Bunds and UK Gilts relatively unchanged.

UK

August saw the Bank of England (BoE) raise rates for a 14th consecutive time, a mixed message in inflation as headline year-on-year (YoY) dropped below 7% in line with expectations while core and services inflation struggle to slow, GDP grew more than expected, unemployment trended higher while wage growth persistence remains with average earnings excluding bonus now 8.2%, for three consecutive months. Given the strength in inflation, Gilt yields finished the month higher, circa 15bps in the 2-year and 30-year while the 5-year saw a jump of circa 25bps. Market pricing for the BoE into yearend showed another 75bps of hikes following the strong wage data before returning to circa 50bps of hikes post an end of month dovish speech by BoE economic Huw-Pill who warned "Now that policy is in restrictive territory, there is the possibility of doing too much and inflicting unnecessary damage on employment and growth.".

The start of the month saw the Bank of England (BoE) raise rates 25bps to 5.25% with all members but one in favour, that single member voted for unchanged. GDP grew by more than expected with month-on-month (MoM) at 0.5% versus expected 0.2% and YoY 0.4% versus expected 0.2%. UK wages continued to rise at a record annual pace, regular pay grew by 8.2% for the third month in a row, and the largest annual growth rate seen outside the coronavirus pandemic period, while labour market conditions loosened more than expected as the unemployment rate rose to 4.2% from 4% the previous month. Once again, the main story for the month was inflation, after finally showing signs of decline last month, core inflation remained at 6.9% and Services CPI rose to 7.4% from 7.2% while headline inflation met expectations at 6.8% from 7.9% last month. The UK will have the highest inflation in the G7 until at least the end of 2024, Moody's has warned.

Japan

JGB yields rose mainly over super long term, and the 10yr yield ended the month 0.045% higher at 0.645%. Against the backdrop of the Bank of Japan's widening of the Yield Curve Control (YCC) band at the end of the previous month, as well as rising yields in U.S. treasury mainly in the first half of the month, JGB experienced upward pressure on yields, particularly in the super long term. The overall inflation ex-perishable food was +3.1% YoY in July, and remained above the central bank's 2% target for sixteenth straight month as food prices continued to be high. The unemployment rate rose marginally to 2.7% in July.

Risk Characteristics

	Fund	Benchmark
Average Maturity (Years)	8.46	8.58
Modified Duration (Years)	6.72	6.68
Norminal Yield (%)	3.97	3.90
Convexity	0.84	0.85

Top 10 Issuers (%)

	Weight (%)
UNITED STATES TREASURY	19.8
JAPAN (GOVERNMENT OF)	11.8
UNIFORM MBS	9.3
CHINA PEOPLES REPUBLIC OF (GOVERNMENT)	5.3
UK CONV GILT	2.9
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION 2	2.7
ITALY (REPUBLIC OF)	2.7
GERMANY (FEDERAL REPUBLIC OF)	2.4
FRANCE (REPUBLIC OF)	2.4
SPAIN (KINGDOM OF)	1.9

Top 10 Issuers held by ESG score

	ESG Score
SOCIETE GENERALE SFH	10.0
ADOBE INC	10.0
AKZO NOBEL NV	10.0
ASSICURAZIONI GENERALI SPA	10.0
AVIVA PLC	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

Quality

	Fund %	Benchmark %
Aaa	12.0	12.9
Aa	45.9	45.1
A	28.6	27.6
Baa	13.1	12.8
Ba	0.0	0.0
NR	0.4	1.6

Maturity Exposure

	Fund %	Benchmark %
< 5	42.33	42.06
5 - 10	33.89	33.39
>= 10	23.78	24.56

Country Exposure

	Fund %	Benchmark %
US	42.80	41.22
Japan	12.48	12.43
China	6.04	6.12
Germany	4.72	4.62
France	5.29	5.41
UK	4.52	4.44
Italy	3.07	3.19
Canada	3.39	3.42
Other	17.69	19.16

ESG Sector Score

	Fund	Benchmark
Treasuries	6.15	6.16
Government Related	6.43	6.37
Corporates	5.60	5.48
Securitized	5.35	5.34

ESG Score Breakdown

	Fund	Benchmark
Environmental	5.40	5.27
Social	6.70	6.71
Governance	6.28	6.29

Green Bonds Exposure

	Fund %	Benchmark %
Green Bonds	0.13	0.09

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 Screened Global Bond Index Fund (Class E)	
APIR	BLK2319AU
Fund Size	556 mil
Buy/Sell Spread	0.10%/0.10%
Tracking Error (3 Years p.a.)	0.15%

iShares ESG Screened 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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