

# iSHARES ESG SCREENED GLOBAL BOND INDEX FUND

iShares®  
by BLACKROCK®

FUND UPDATE

30 September 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)	-1.89	-2.26	-0.41	0.13	-4.70	-	-2.34
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-1.88	-2.25	-0.28	0.25	-4.78	-	-2.35
Outperformance (Gross of Fees)	-0.01	-0.02	-0.13	-0.11	0.07	-	0.00
iShares ESG Screened Global Bond Index Fund (Net of Fees) (Class D)	-1.91	-2.31	-0.56	-0.07	-4.88	-	-2.57
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-1.88	-2.25	-0.28	0.25	-4.78	-	-2.35
Outperformance (Net of Fees)	-0.03	-0.07	-0.28	-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.

## Performance Summary

### Market Review

#### US

In September, the Federal Open Market Committee (FOMC) decided to keep rates unchanged with the target range at 5.25-5.50%. The Survey of Economic Projections (SEP) revealed an upgraded growth outlook and maintained the possibility of one more hike this year. The dot-plot in the SEP was hawkish, with the Fed anticipating cuts of only 50 basis points (bps) next year, compared to the previous projection of 100 bps. This is also less dovish than the market expectation of ~80 bps. The SEP medians indicated a committee more convinced of a soft-landing narrative. The Fed raised its growth forecast for the year to 2.1%, reflecting solid recent data. Decisions will be made on a meeting-by-meeting basis.

As a result, US Treasury yields surged and the curve steepened, with the 10-year rate reaching its highest level since 2007 at 4.55% and the 30-year rate reaching 4.67%, driven by market expectations of higher rates for a longer period and elevated supply.

Across the globe, other major central banks are maintaining a hawkish stance. The European Central Bank (ECB) recently raised their key rates by 25 basis points (bps) each, bringing the deposit facility to 4.0%. The Bank of England (BOE) held the bank rate at 5.25%, the first meeting in 15 where there was no rate hike. The BOE also unanimously voted to increase the pace of Gilt Quantitative Tightening (QT) over the next year to £100 billion, up from £80 billion. The Bank of Canada held its key policy rate as expected at 5%. Meanwhile maintaining a hawkish tone by expressing concerns about broad-based strength and overall weak downward momentum of core inflation, prepared to increase the policy rate if needed. In contrast, the Bank of Japan (BOJ) maintained an ultra-low interest rate at -0.1% and continued its yield curve control (YCC) framework. The BOJ pledged to keep supporting the economy until inflation sustainably hits its 2% target, indicating that it is in no rush to phase out its massive stimulus program.

Visit [BlackRock.com.au](https://www.blackrock.com.au) for further information, including:

- Market Insights & Commentary
- Fund Performance
- Unit Prices

On the data front, August US Headline CPI popped came out at 0.63% MoM and 3.7% YoY, its largest sequential gain since June 2022. Core CPI came in at 0.28% MoM and 4.4% YoY. More than half of the Headline figure was driven up by a pick-up energy price (5.6%), while food posted more modest gains (0.2% MoM). US Core PCE inflation was also trimmed to 3.7% by year-end. GDP was unchanged at 2.1% for the second quarter, slightly higher than first quarter which was 2.0% annualized. Consumers were more cautious in their spending with Consumer spending, which accounts for about 70% of the US economy, revised lower to a 0.8% annualized rate, down from 1.7% in the previous estimate.

The oil price has surged above \$90 per barrel, apart from the long-standing environmental challenges that drive oil prices high, several factors have contributed to this price jump. Supply constraints from OPEC+ and other producers, demand recovery from China and other major consumers, who are ramping up their oil consumption as they emerge from the pandemic and prepare for the Golden Week holiday. Additionally, sanctions, conflicts, or instability in some oil-producing regions such as Libya, Iran, Nigeria, and Venezuela have further impacted the price.

## Eurozone

The ECB raised rates to an all-time high however signalled the hiking cycle was close to the end. Suggesting interest rates had reached a level which maintained for a long period of time would bring inflation back to the 2% target this narrative of a pause follows a similar path to other central banks. In updated forecasts, the ECB cut its growth forecast for the next 3 years and whilst inflation was revised up for 2023 and 2024, the 2025 predication was lowered to 2.1%

The market currently sees little chance of another rate rise in 2023 with more hawkish members of the ECB advising of another hike in December if inflation and wages pressure continues. Despite unemployment remaining historically low, pressures of the latter were reduced somewhat with latest eurozone hourly labour costs rising 4.5% in the second quarter, down from 5.2% in the first quarter and 5.9% in the 4th quarter of 2022. Although market narrative has changed to higher for longer and ECB have given no indication of cutting interest rates, markets currently forecast the first 25bps cut to occur mid-2024.

Concerns of future supply, higher neutral rate and increased momentum saw longer end US Treasury yields move higher. A theme which started in July, 10-year yields reached the highest level since 2007 (4.70%) after better than expected economic data accelerated the move. Feeding into Europe, the 10-year German Bund yield climbed close to 3% with underperformance of longer end securities noticeable versus 2-year yields. Assisting the increase in European yields was Italy's decision to raise budget deficit forecasts with 2024 revised from 3.7% to 4.3%. With EU rules capping budget deficits at 3% of GDP likely to be reintroduced the potential conflict with Brussels saw Italian sovereign spreads widen.

The economic backdrop in Europe continues to suggest an economy facing increasing headwinds. Although sentiment indicators (Purchasing Managers' Index) increased marginally, they remain in contraction territory with new monthly orders witnessing a fourth consecutive monthly decrease, described as "the most pronounced since November 2020". Subsequent remarks by ECB chief economist Philip Lane that economic growth was "tilted to the downside" added further momentum to the likely path of economic data.

Inflation in the Eurozone hit a 2 year low with consumer prices rising by 4.3% in September, below expectations and August rate of 4.5%. Core inflation (stripping out energy and food costs) also came in below expectations at 4.3% aiding the argument for ECB to finish their rate hiking cycle.

## UK

September saw the Bank of England (BoE) shock most market participants by keeping interest rates on hold at 5.25% following 14 consecutive rate hikes over nearly two years. A mix of data for the UK over the month as Composite Purchase Managers' Index (PMIs) fell into "contraction" territory although beating expectations, the services sector hit a seven-month low, the economy contracted for the month of July while quarterly and annual growth was stronger than expected. All eyes were on the BoE meeting this month with the day ahead of the decision the inflation report released which showed core and headline inflation slow by more than anticipated, with food prices falling for the first time in two years. The BoE's Monetary Policy Committee (MPC) voted 5-4 to maintain the Bank Rate at 5.25% following the drop in inflation however they cut their forecasts for economic growth for the second quarter while warning rates may need to remain at these high levels.

The month began with Composite, Manufacturing and Services PMIs falling into contraction territory at 48.6, 43.0 and 49.5 respectively while Construction PMI continued to expand at 50.8. Services hit a seven-month low but beat its estimate for a two-year low of 48.7. The unemployment rate grew to 4.3%, its highest rate in nearly two-years while UK pay continues to rise at a record rate. UK GDP for the month of July shrank at -0.5% as officials blamed wet weather and strikes. The biggest economic release apart from the BoE decision was the slowing of inflation, Core inflation year-on-year (YoY) slowed to 6.2% from 6.9%, while headline inflation YoY slowed to 6.7% from 6.8%. The following day the BoE's MPC voted 5-4 for a pause on rate hikes, with the four opposing votes in favour of another hike. The bank rate remains at 5.25% as the pound hit its lowest level in six months against the dollar (\$1.2239) on the back of the decision. The end of the month saw revisions to UK GDP which now indicates the UK has seen faster growth than France or Germany since the end of 2019, showing growth of 1.8% from a previous estimated 0.2% contraction.

## Japan

JGB yields rose mainly over 5-20ye zone in September, and the 10yr yield ended the month 0.12% higher at 0.765%. Against the backdrop of weakness in the U.S. and European bond markets on the back of hawkish changes in the Fed's dots towards maintaining higher policy rate for longer, and the increasing speculation regarding the BoJ's early exit from the negative interest rate policy, the domestic bond market experienced upward pressure on yields. The overall inflation ex-perishable food was +3.1% YoY in August, and remained above the central bank's 2% target for seventeenth straight month as food prices continued to be high. The unemployment remained at 2.7% in August, maintaining the same level as July.

### Risk Characteristics

	Fund	Benchmark
Average Maturity (Years)	8.32	8.48
Modified Duration (Years)	6.54	6.54
Norminal Yield (%)	4.14	4.22
Convexity	0.82	0.83

### Top 10 Issuers (%)

	Weight (%)
UNITED STATES TREASURY	20.2
JAPAN (GOVERNMENT OF)	11.7
UNIFORM MBS	9.1
CHINA PEOPLES REPUBLIC OF (GOVERNMENT)	5.4
UK CONV GILT	2.9
ITALY (REPUBLIC OF)	2.7
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION 2	2.7
FRANCE (REPUBLIC OF)	2.4
GERMANY (FEDERAL REPUBLIC OF)	2.4
SPAIN (KINGDOM OF)	1.9

### Top 10 Issuers held by ESG score

	ESG Score
BANK OF NOVA SCOTIA	10.0
KELLOGG COMPANY	10.0
ADOBE INC	10.0
AKZO NOBEL NV	10.0
APPLIED MATERIALS INC	10.0
ASSICURAZIONI GENERALI SPA	10.0
AVIVA PLC	10.0
BANQUE DEVELOPPT CONSEIL EUROPE 9	10.0
BUNGE LIMITED FINANCE CORPORATION	10.0
CRH FINANCE DAC	10.0

### Quality

	Fund %	Benchmark %
Aaa	11.9	12.9
Aa	46.0	45.2
A	28.3	27.5
Baa	13.1	12.7
Ba	0.0	0.0
NR	0.7	1.8

### Maturity Exposure

	Fund %	Benchmark %
< 5	43.01	42.42
5 - 10	33.17	33.37
>= 10	23.82	24.21

### 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	5.61	5.49
Securitized	5.40	5.38

### ESG Score Breakdown

	Fund	Benchmark
Environmental	5.40	5.29
Social	6.71	6.71
Governance	6.28	6.29

### Green Bonds Exposure

	Fund %	Benchmark %
Green Bonds	0.14	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	539 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.

**IMPORTANT INFORMATION:** Issued by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975, AFSL 230 523 (**BIMAL**). This material is not a financial product recommendation or an offer or solicitation with respect to the purchase or sale of any financial product in any jurisdiction. The material provides general information only and does not take into account your individual objectives, financial situation, needs or circumstances. Before making any investment decision, you should assess whether the material is appropriate for you and obtain financial advice tailored to you having regard to your individual objectives, financial situation, needs and circumstances. BIMAL is the responsible entity and issuer of units in the Australian domiciled managed investment schemes referred to in this material. Any potential investor should consider the latest product disclosure statement, prospectus or other offer document (**Offer Documents**) before deciding whether to acquire, or continue to hold, an investment in any BlackRock fund. Offer Documents can be obtained by contacting the BIMAL Client Services Centre on 1300 366 100. In some instances Offer Documents are also available on the BIMAL website at [www.blackrock.com.au](http://www.blackrock.com.au). BIMAL, its officers, employees and agents believe that the information in this material and the sources on which it is based (which may be sourced from third parties) are correct as at the date of publication. While every care has been taken in the preparation of this material, no warranty of accuracy or reliability is given and no responsibility for the information is accepted by BIMAL, its officers, employees or agents. Any investment is subject to investment risk, including delays on the payment of withdrawal proceeds and the loss of income or the principal invested. While any forecasts, estimates and opinions in this material are made on a reasonable basis, actual future results and operations may differ materially from the forecasts, estimates and opinions set out in this material. No guarantee as to the repayment of capital or the performance of any product or rate of return referred to in this material is made by BIMAL or any entity in the BlackRock group of companies. No part of this material may be reproduced or distributed in any manner without the prior written permission of BIMAL. © 2023 BlackRock, Inc. All Rights reserved. BLACKROCK, BLACKROCK SOLUTIONS, iSHARES and the stylised i logo are registered and unregistered trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.