

iSHARES ESG GLOBAL BOND INDEX FUND

iShares®
by BLACKROCK®

FUND UPDATE

31 March 2022

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)	-2.09	-4.85	-4.85	-4.01	-	-	-0.47
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-2.17	-4.97	-4.97	-4.14	-	-	-0.50
Outperformance (Gross of Fees)	0.09	0.12	0.12	0.14	-	-	0.04
iShares ESG Global Bond Index Fund (Net of Fees) (Class D)	-2.10	-4.89	-4.89	-4.20	-	-	-0.70
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-2.17	-4.97	-4.97	-4.14	-	-	-0.50
Outperformance (Net of Fees)	0.07	0.07	0.07	-0.05	-	-	-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.

Performance Summary

Market Review

US

In March, the Federal Open Market Committee (FOMC) raised interest rates by 0.25% for the first time since 2018, as it aims to control the historic rise in inflation brought on by pandemic-related supply bottlenecks and recent geopolitical tensions in Europe. In subsequent interviews, the Chair, and other officials, maintained a hawkish stance, keeping options open for a 0.50% rate hike in May. Regarding the Fed's balance sheet, Chair Powell reiterated that the FOMC would begin the runoff process soon and that the process will take around three years.

Labor and inflation data remained strong over the month. Headline CPI increased 0.8% month-over-month, bringing year-over-year to 7.9%, marking the fastest increase since 1982. Our current forecast is for a headline CPI of 4.7% and a core CPI of 4.2% by year-end. US non-farm payrolls increased by 431,000 and prior months were revised higher, with the three-month moving average now at 562,000. The unemployment rate also fell to 3.62%.

With inflation well above 2% and the Fed's hawkish backdrop, front-end rates have moved meaningfully higher as markets are pricing 8 additional rate hikes for 2022. The selloff in the front-end led to a dramatic flattening of the nominal yield curve. Consequently, the 2y10y briefly inverted toward the final days of the month.

On the geopolitical front, the zero-COVID policy exerts pressure on China as they combat an increase in cases leading to disruptions in the global supply chain. As the Russia-Ukraine war continues, so too has the path of uncertainty for global markets. Given the increased Russian sanctions, oil prices climbed throughout the month. Brent Crude surged to its highest level since 2008, ~\$140 a barrel, as countries pledged to limit their dependence on Russian oil. At the end of March, the U.S. announced

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- Unit Prices

that they will release a record amount of barrels from the strategic oil reserves. This led to the price of oil to retrace to around \$100 per barrel. Furthermore, given Russia and Ukraine are large contributors to the global supply of crops and fertilizers, a potential escalation in the war could result in further food inflation, and sanctions on further commodities.

In sum, with geopolitical tensions exacerbating supply-side inflation and Central banks hawkish policies to control it, markets are forecasting higher inflation and lower real growth globally for the year.

Eurozone

After dropping sharply in February in response to the Russian invasion of Ukraine, yields rose again in March as central banks confirmed their more hawkish stance, in response to soaring inflation. The yield on the 10-year German bund rose from 0.13% at the end of February to 0.55% at the end of March. Market pricing of rate hikes from the ECB rose significantly, with 52bp of hikes now priced by the end of 2022. Sovereign spreads saw some retracement from the February highs however, with the spread on 10-year French and Italian debt falling by 4bp (to 43bp) and 8bp (to 149bp) respectively.

While the ECB kept key interest rates unchanged and reaffirmed the decision to end the pandemic emergency purchase programme (PEPP) in March 2022, in a move that surprised many market commentators, the pace of the monthly net purchase reduction in its asset purchase programme (APP) has been accelerated for the second quarter of this year. Purchases in Q3 will depend on incoming data, and if there are no negative surprises they would expect to end APP in Q3. APP will now amount to €40bn in April, €30bn in May and €20bn in June (compared to the path communicated in December 2021 of €40bn in Q2, €30bn in Q3 and €20bn thereafter). The ECB also decoupled the end of asset purchases from the timing of the first interest rate, now expecting that adjustments to interest rates will happen “some time” rather than “shortly” after the end of net purchases under the APP in an apparent move to increase flexibility. Significantly, the ECB unveiled meaningful changes to the growth and inflation outlook, particularly for 2022 where growth expectations were revised down from 4.6% to 4.2%, and inflation expectations were revised upwards from 1.7% to 3.2%. According to Lagarde, the ECB expects inflation to be close to the 2% target in the long-term in all scenarios.

March PMIs (Purchasing Managers Index) remained in expansionary territory, coming in at 54.5 versus market expectations of 53.8. The service sector continued to benefit from reopening post Covid-19, which offset the weakness related to the invasion of Ukraine. The release also showed however that the invasion of Ukraine led to price pressures rising again, and worsened supply chain related delays. New exports fell for the first time in 21 months and the forward looking ‘future output’ also fell more significantly than the headline index. The PMIs indicate that so far, the impact of the invasion of Ukraine on Euro Area activity is limited but point to a worsened outlook compared to February.

Inflation prints continued to surprise to the upside, Eurozone inflation coming in at 7.5%. At the country level, German inflation rose to 7.6% YoY in March, up from 5.5% in February, Spain to 9.8% from 7.6%, and France to 5.1% from 4.2%. Rising energy prices remain the main driver behind the increases, although food and commodity prices have also risen significantly in recent months.

UK

Inflation was the large global risk to monitor closely over the period. Commodity prices skyrocketed and whilst the UK is less energy dependent than many European nations, lacking energy and fuel supply from Russia has placed upward pressure on inflation. In this environment, UK Government bond yields continued to rise following another interest rate increase of 25 bps in March, but yield moves were less pronounced than its last base rate increase. Bank of England (BoE) officials noted that the impact from the war in Ukraine is potentially large and made a consistent policy direction difficult to determine in the near term as bifurcation between weaker economic growth and higher inflation expectations accelerated.

The geopolitical crises in Ukraine propelled the phenomena of supply driven inflation and has posed a dilemma to central banks to choose between economic growth or controlling inflation as the risk of de-anchored expectations looms. BoE Governor, Andrew Bailey, acknowledged growth risks from the war in Ukraine but has been wary on implications for monetary policy given elevated uncertainty. Yet, the BoE has so far placed inflation as a priority and has led the normalization path of developed market central banks, a trend it continued in March as it increased the base rate for the second time by 0.25% to 0.75%. UK government bond yields increased across the curve particularly at the shorter end as UK 2-year yields increased 31 bps, accompanied by a 20 bps rise in 10-year yields. However, whilst the Monetary Policy Committee (MPC) voted 9-1 for the 25bps hike, a majority of the committee stating they raised rates to reduce the risk that recent upward trends in pay growth and inflation become embedded in expectations. Such comments likely reduce the necessity to hike aggressively in order to curtail inflation and caused volatility in intramonth bond yields.

Inflationary pressure continues to mount as UK Headline CPI increased from 5.5% to 6.2% in the 12 months to February 2022, remaining at a 30-year high. Key drivers of the mounting pressure were spurred by the war in Ukraine which has led to soaring commodity price increases, most pronounced in food and energy. The largest upward contributions came from housing and household services (+1.39%), derived principally from electricity, gas and other fuels in addition to and transport (+1.26%) percentage points. Most recently, the BoE forecasts inflation to peak this Spring at 8%, but implied inflation could overshoot as global inflationary pressures will likely strengthen considerably further over coming months while growth in economies that are net energy importers such as the UK, is likely to slow.

The release of UK Composite PMI reflected a marginal decline from 59.9 to 59.7, signaling strong economic growth. Despite persistence in high output, firms are currently faced with looming energy cost increases in conjunction with renewed disruptions to supply chains as non-energy imports from Ukraine and Russia are restricted. Against this backdrop, input costs have increased in addition to the steepest price rise since the survey began. Further, escalating inflationary pressure related to the Russia/Ukraine conflict led to a sharp decrease in business optimism. The UK labour market further tightened as UK unemployment fell to 3.9% whilst average weekly earnings continued an upward trajectory. Despite wages increasing at a high rate, in light of increasing cost pressure on both household and businesses, decreasing consumer spending power remains a key trend to monitor over the coming months.

Japan

Japanese Government Bond yield rose mainly via medium to long-end, and the 10Yr yield ended the month 3 bps higher. JGB yields came under upward pressure as US and European bond yields continued to rise against the backdrop of rising inflation, hawkish results at the Fed and ECB policy meetings, and subsequent statements from FOMC members that suggested aggressive monetary tightening.

Japanese economic data showed a sharp decline in GDP growth in Jul-Sep 2021, followed by a solid recovery in Oct-Dec 2021, and then another downturn in Jan-Mar 2022 due to the spread of the Omicron variant. In the medium term, however, there are no major concerns about exports and capital investment, and production is showing signs of recovery. The overall inflation levels remained weak, hitting modestly higher at +0.6% YoY in February. While energy-related prices have risen, the impact of the reduction in phone bills continued to be a major downward factor. The unemployment rate remained relatively low at 2.7% in February.

BOJ maintained its monetary policy at its policy meeting. Toward the end of the month, BOJ conducted several fixed-yield unlimited buying operation as the yield rose and approached the fixed yield rate of 0.25% while it also increased its regular repurchase operations, and conducted temporary repurchase operations for a wide range of maturities. As a result, long-term yields fell sharply toward the end of the month. BOJ also announced that it would increase its purchases of JGBs in each maturity bucket on its buying schedule for the following quarter.

Risk Characteristics

	Fund	Benchmark
Average Maturity (Years)	8.88	9.13
Modified Duration (Years)	7.41	7.45
Norminal Yield (%)	2.00	2.06
Convexity	0.88	0.90

Quality

	Fund %	Benchmark %
Aaa	42.0	42.2
Aa	15.2	15.1
A	28.1	27.7
Baa	13.0	13.5
Ba	-	0.0
NR	1.8	1.5

Maturity Exposure

	Fund %	Benchmark %
< 5	39.86	39.52
5 - 10	35.81	35.44
>= 10	24.32	25.04

Country Exposure

	Fund %	Benchmark %
US	33.20	39.60
Japan	14.04	13.93
Germany	4.62	4.61
France	5.58	5.46
UK	5.31	5.11
Italy	3.50	3.29
Canada	3.50	3.54
Other	30.25	24.46

ESG Sector Score

	Fund	Benchmark
Treasuries	5.87	5.84
Government Related	6.56	6.58
Corporates	6.93	6.52
Securitized	7.76	7.52

ESG Score Breakdown

	Fund	Benchmark
Environmental	5.46	5.37
Social	7.10	7.05
Governance	6.28	6.25

Green Bonds Exposure

	Fund %	Benchmark %
Green Bonds	2.15	1.26

Top 10 Issuers held by ESG score

	ESG Score
BANK OF NOVA SCOTIA	10.0
INTER-AMERICAN DEVELOPMENT BANK	10.0
SOCIETE GENERALE SA	10.0
ADOBE INC	10.0
BANCO BILBAO VIZCAYA ARGENTARIA SA	10.0
BUNGE LIMITED FINANCE CORPORATION	10.0
CAISSE DE REFINANCEMENT DE L HABITAT	10.0
COMPAGNIE GENERALE DES ETABLISSEMENTS MICHELIN SCA	10.0
COUNCIL OF EUROPE DEVELOPMENT BANK	10.0
CRH FINANCE DAC	10.0

Top 10 Issuers (%)

	Weight (%)
UNITED STATES TREASURY	18.2
JAPAN (GOVERNMENT OF)	13.4
CHINA PEOPLES REPUBLIC OF (GOVERNMENT)	4.3
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.9
FRANCE (REPUBLIC OF)	3.3
ITALY (REPUBLIC OF)	3.2
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION 2	2.8
UNIFORM MBS	2.8
GERMANY (FEDERAL REPUBLIC OF)	2.6
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (GOVERNMENT)	2.6

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	528 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 31 October 1997, however the Fund has been made available to clients investing indirectly through master trust or wrap accounts from 1 April 2010. Please note that pricing information displayed on BlackRock website from the date of the Fund's actual inception up to and including 31 March 2010 has been calculated before fees, whilst prices on and after 1 April 2010 will be reported on an after fees basis.

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