iSHARES ESG GLOBAL BOND INDEX FUND

iShares by BLACKROCK®

FUND UPDATE **30 April 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)	-2.88	-6.07	-7.59	-7.01	-	-	-1.51
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-2.88	-6.17	-7.70	-7.10	-	-	-1.54
Outperformance (Gross of Fees)	-0.01	0.10	0.11	0.10	-	-	0.03
iShares ESG Global Bond Index Fund (Net of Fees) (Class D)	-2.90	-6.12	-7.65	-7.19	-	-	-1.74
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-2.88	-6.17	-7.70	-7.10	-	-	-1.54
Outperformance (Net of Fees)	-0.02	0.05	0.05	-0.09	-	-	-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.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

Performance Summary

Market Review

US

Volatility continued into April, driven early by solid payroll gains and ISM Manufacturing data, both of which served to confirm a hawkish path for the Fed and helped to drive rates higher with 2-year yields closing the month at 2.72%, +37bps for the period and +196bps YTD. The hawkish lean helped to briefly invert the US yield curve (2s10s) early in the month before longer end rates pushed higher, driven by elevated inflation figures and investors demand for a higher term premium for holding long-term government bonds. Further uncertainties surrounding the war in Ukraine and the COVID induced lockdown across major cities in China, kept intraday volatility elevated and helped to pressure risk assets broadly.

Specific to monetary policy, the Federal Open Market Committee (FOMC) meeting minutes released in the first week of April signaled that the Fed is ready to entertain 50bps rate hikes going forward, and that it intends to start reducing its bond holdings with peak caps of $60bn/month for Treasury securities and $35bn/month for mortgage-backed securities (MBS) as early as May. Along with the minutes, a number of remarks from FOMC members doubled down on the message of tighter monetary policy on the horizon and even active sales of MBS as the focus for policy makers clearly shifted to a focus on addressing elevated and sticky levels of inflation.

Inflation showed continued resiliency. Supply shocks have created shortages of goods, energy and food that are driving up prices. It's also spurring central banks to normalize policies faster. Global equities are sliding on worries about the Federal Reserve generating a recession, while Chinese markets suffered their sharpest tumble since the start of the pandemic with fears that lockdowns will spread to all of Beijing and across the country.

Looking ahead, we anticipate a choppy environment given the number of uncertainties and macro risks at play. Currently, the market is focusing on the upcoming FOMC meeting in the first week of May to see how Fed will respond to the higher-than-expected inflation with current market pricing in a 50bps hike and just under 200bps of additional hikes through 2022. As noted, it's also anticipated that the Fed will announce the start of its balance sheet runoff with implementation currently expected in early June.

Eurozone

Central Banks remained on path to normalize policy, re-affirming their desire to tighten monetary conditions before second round effects of high inflation crystallized. The ECB asserted 'the upside risks surrounding the inflation outlook have also intensified, especially in the near term' although repeated policy tightening would be data dependent and any interest hikes occur after the end of QE. Hawkish comments from individual speakers including Vice President Luis de Guindos that QE should end in July with a first interest rate hike in this month also "possible" reframed market expectations with hawks outnumbering the doves in market rhetoric.

Data in April highlighted the challenge faced by the ECB of trying to tighten monetary policy in the face of a slowing economy. Headline inflation increased to 7.5% (7.4% in March) whilst core jumped from 3.9% (from 3.2%) with growth slowing to 0.2% quarter-on-quarter from 0.3% prior. Forward looking data including ECB Bank Lending Survey and Eurozone Purchasing Managers' Index suggested near term economic headwinds await with impact from Ukraine-Russia on supply chains, Covid-19 related lockdowns in China and steep price increases dampening sentiment.

Influenced by hawkish rhetoric within the Eurozone and comments by global central bankers April witnessed a significant re-assessment as to the expected pace and magnitude of interest rate hikes in the current cycle. Reflecting the necessity to front load tightening in the face of high inflation and deteriorating growth outlook, markets forecast 200bps of tightening to occur by December 2023. The interest rate sensitive portion of sovereign yield curves reacted appropriately, the German 2 year rising 33bps to 0.25% with periphery underperforming, 2-year Italian yields 40bps higher to 0.72%.

Longer end sovereign yields climbed, the German curve steepening as the spread between 10- and 2-year yields rose 6bps to 69bps despite the price action in the front end. Led by increasing medium term inflationary pressures (5Y5Y inflation swaps 2.43%), the unlikely near-term resolution of Russia-Ukraine conflict has seen the risk increase of consistent inflation pressures becoming entrenched. The evolving supply and demand dynamics is also providing upward pressure on term premia demanded by investors. The winding down of ECB QE schemes removes an active buyer from the market whilst upcoming fiscal spending programs concerning energy infrastructure/consumer support and/or military investment (expectations in Germany is for additional €40bn issuance this year) will increase supply. These variables are having a greater affect in periphery versus core with Italian 10s2s 21bps higher in April. These moves saw the average yield on Italian debt rise about the weighted average yield of their outstanding debt as fundamentals once again come to the fore.

UK

Central banks are normalizing policy rates back to neutral levels that neither stimulate nor restrain the economy. Whilst this was a difficult role at the beginning of 2022, challenges have mounted over the course to April. Output data released over the period fell below expectations and suggested a sharper slowing of the UK economy than expected whilst inflation continued to increase, maintaining its three-decade high. Both trends could be further exacerbated from the supply shock of the war in Ukraine. Considering this environment, fixed income came under pressure. Government bond yields increased, with UK 10-year yields passed 2%, levels last seen in 2015 whilst credit market returns were firmly in negative territory.

Bank of England (BoE) Governor Andrew Bailey acknowledged the dilemma faced by UK policymakers as walking a "tightrope" between inflation and the risk of damaging household income too greatly. In light of the cost of living crises faced by UK consumers, we expect the BoE to strike a cautious tone around the pace of future hikes as the next meeting in May draws closer, but expect interest rates continue hiking. Market expectations of the terminal interest rate continue to increase as markets priced in interest rates of at least 2% by the close of 2022.

The consequences of the conflict in Ukraine became clearer through economic data unveiled over April. Headline inflation jumped to 7.0% in the 12-months to March, largely driven by fuel prices which increased over 30% from March 2021. Implications of the supply shock stemming from the Ukraine conflict have both raised – and delayed – the peak of inflation. This poses a question if the pace of rate hikes will be regularly revisited in the coming MPC meetings to secure the inflation target of 2% in a more efficient manner.

The UK domestic growth outlook deteriorated after official data showed the economy reporting a below expectation growth rate. Whilst UK unemployment remained close to a multi-decade low in addition to displaying strong wage growth, consumer confidence tumbled to a level more likened to that of a recession as consumes are faced with increasing costs and in addition to rising taxes. Retail sales declined by 1.4% over the month to March and flash PMIs fell by more than anticipated. While the BoE is ahead of both the Fed and ECB in lifting interest rates, the underlying economies differ significantly, and recent reports highlight the BoE is could run out of hiking road before it risks tipping the economy into decline.

Japan

Japanese Government Bond yields rose mainly via long-end with 7Yr or shorter slightly lower and 10Yr yield ending the month 0.5bps higher. JGB yields experienced upward pressure, especially in the long-end, as yields in overseas bond markets continued to rise against the backdrop of high inflation, hawkish stance of the Fed and the ECB, acceleration of yen depreciation, and some expectations about the BOJ's yield curve control policy adjustment.

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 +0.8% YoY in March. While energy and food 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 2.6% in March.

BOJ maintained its monetary policy at its policy meeting. In its Outlook Report, the BOJ downgraded its GDP growth rate for FY2022 while it upgraded its core CPI forecast but maintained its view that the expected rise in the inflation rate above or around 2% would be temporary. In addition, the BOJ conducted a series of the fixed-yield JGB-buying money market operation from April 20th to 28th to keep the yield ceiling on 10-year bonds at 0.25%, and announced at the month-end meeting that it would conduct the same operations every business day except when no bids were clearly expected.

Risk Characteristics

	Fund	Benchmark
Average Maturity (Years)	8.83	9.00
Modified Duration (Years)	7.26	7.25
Norminal Yield (%)	2.45	2.48
Convexity	0.93	0.94

Quality

	Fund %	Benchmark %
Aaa	42.2	42.8
Aa	14.9	14.8
A	28.1	27.6
Baa	13.2	13.2
Ba	0.0	0.0
NR	1.6	1.6

Maturity Exposure

	Fund %	Benchmark %
< 5	39.83	39.93
5 - 10	34.30	33.75
>= 10	25.87	26.32

Country Exposure

	Fund %	Benchmark %
US	41.11	40.48
Japan	14.08	13.86
Germany	4.26	4.47
France	5.34	5.29
UK	5.29	5.04
Italy	3.35	3.18
Canada	3.36	3.56
Other	23.21	24.12

ESG Sector Score

	Fund	Benchmark
Treasuries	5.85	5.83
Government Related	6.55	6.58
Corporates	6.95	6.54
Securitized	7.76	7.51

ESG Score Breakdown

	Fund	Benchmark
Environmental	5.48	5.38
Social	7.09	7.06
Governance	6.25	6.24

Green Bonds Exposure

	Fund %	Benchmark %
Green Bonds	2.16	1.26

Top 10 Issuers held by ESG score

	ESG Score
INTERNATIONAL FINANCE CORP	10.0
ADOBE INC	10.0
AKZO NOBEL NV	10.0
BANCO BILBAO VIZCAYA ARGENTARIA SA	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
INTER-AMERICAN DEVELOPMENT BANK	10.0
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	10.0

Top 10 Issuers (%)

	Weight (%)
UNITED STATES TREASURY	18.4
JAPAN (GOVERNMENT OF)	13.5
CHINA PEOPLES REPUBLIC OF (GOVERNMENT)	4.4
FEDERAL NATIONAL MORTGAGE ASSOCIATION	4.2
ITALY (REPUBLIC OF)	3.0
FRANCE (REPUBLIC OF)	3.0
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION 2	2.9
UNIFORM MBS	2.9
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (GOVERNMENT)	2.6
BLACKROCK ICS PLC - INSTITUTIONAL US DOLLAR LIQUIDITY FUND	2.5

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	517 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 30 April 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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