

iSHARES ESG GLOBAL BOND INDEX FUND



FUND UPDATE

31 May 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)	-0.24	-5.14	-7.81	-7.34	-	-	-1.55
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.23	-5.21	-7.91	-7.49	-	-	-1.57
Outperformance (Gross of Fees)	-0.01	0.07	0.10	0.14	-	-	0.03
iShares ESG Global Bond Index Fund (Net of Fees) (Class D)	-0.26	-5.19	-7.89	-7.53	-	-	-1.78
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.23	-5.21	-7.91	-7.49	-	-	-1.57
Outperformance (Net of Fees)	-0.03	0.02	0.02	-0.04	-	-	-0.21

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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- Fund Performance
- Unit Prices

Performance Summary

Market Review

US

Over the month of May, the market focused on the Federal Reserve's projected hiking path and the continuing tensions between Russia and Ukraine. Equity risk assets saw some reprieve as the S&P 500 managed to bounce by almost 6% in the final week of the month after 7 consecutive weeks of declines. Bond markets also managed to stage a moderate pullback in yields, with 10-year and 2-year nominal rates declining about 9bps and 16 bps respectively.

At the beginning of the month, The Federal Open Market Committee (FOMC) raised its policy interest rate by 50bps to start the path of normalization. In addition, the committee anticipates "ongoing increases in the target range will be appropriate" and announced the start of balance sheet runoff. As previously suggested by the March minutes, the pace of runoff was confirmed today as \$95 billion/month (\$60 billion in U.S. Treasuries and \$35 billion in Agency mortgage-backed securities), with a three-month phase-in period. The committee will continue to remain focused on fighting inflation and preventing higher inflation from getting entrenched as the labor market is now extremely tight.

On the economic data front, we received blockbuster jobs report with 428,000 jobs gained, above market expectations for a 380,000 gain. This solid report suggests continued tightness in the US labor force, particularly given wages that continue to increase. Details showed private employment led the gains with a 406k increase across most sectors over the month. The households survey was less rosy in April, with the unemployment rate staying at 3.6% MoM. Average hourly earnings increased in 0.31% in April, moving the YoY rate down to 5.46%.

Inflation continued to remain sticky over the month. April's Core CPI increased by ~0.6% MoM or ~6.2% YoY. Details showed new vehicles and reopening components contributed to the strong monthly gain. Headline CPI decelerated from its March pace, increasing 0.3% MoM or 8.3% YoY, as energy prices declined, and food price gains moderated slightly.

The current macro-backdrop remains challenging and uncertain. The committee remains highly attentive to inflation risks that are still skewed to the upside as supply constraints have only been exacerbated further. The labor market remains tight, and they expect wage pressures to stay elevated for some time. Inflation data in the coming months is likely to play a large role in shaping bond market expectations of where inflation will settle, and the Fed's behavior in the second half of the year will be highly sensitive to those dynamics.

Eurozone

Core rates started to show signs of stabilisation in May after a persistent move higher since the start of the year. While inflation remains high and central banks continue on their policy normalisation paths, concerns are also growing about the impact of rising inflation on real incomes and growth. In a blog post by ECB president Christine Lagarde noted the need to "take the growth outlook into account when calibrating policy normalisation". The blog laid out her expectation for the pace of rate hikes, cementing a rate lift-off in July, and noting that "we are likely to be in a position to exit negative rates by the end of the third quarter".

The yield on the 10-year German bund rose from 0.97% at the end of April to 1.12% at the end of May. Markets are now pricing 115bps of rate hikes by the ECB in 2022, and 195bp of hikes by the end of 2023. Sovereign spreads also started to show some signs of stabilisation versus earlier months, with the spread on 10-year French debt falling by 1bp to 51bps, while the spread in 10y-year Italian debt rose 10bp to 199bp.

Year-on-year Eurozone inflation continued to rise in May and is expected to do so until Q3 2022. Headline HICP rose from 7.4% to 8.1%, with core inflation rising to 3.8% YoY. Energy inflation remained the key driver, with food inflation also accelerating as a result of higher input costs and the war in Ukraine. Signs of increased wage growth also appeared, with negotiated wages up 2.6% YoY in Q1 2022, up from 1.6% YoY in Q4 2021.

In the Eurozone, the composite PMI in May moved down from 55.8 to 54.9. The service sector showed the greatest signs of a slowdown, falling 1.4 points. Market attention was on the forward looking components however, such as new manufacturing orders, which fell below 50 due to continued inflation and macro uncertainty.

UK

Developed market central banks began the month with a bout of activity as both the Federal Reserve and Bank of England (BoE) increased their respective reference rates. High inflation coupled with a tight labour market kept pressure on the BoE to avoid an extended inflationary period and prevent a wage price spiral becoming embedded. However, the cost-of-living crises was reflected in the lowest consumer confidence reading on record and a contraction in GDP heightened recession concerns, tempering market expectations over the pace of future hikes. Considering this environment, there was considerable variation across the government bond yield curve. UK government 30-year yields passed increased 36 bps whilst the 2-year yield remained flat, despite intramonth volatility.

The BoE raised the UK base rate 25bps to 1.00% early in the month as policymakers directed further efforts to control inflation, which reported a 40-year high headline figure of 9% (YoY). Further increases to the base rate are likely to come, with the BoE most recent forecasts suggesting inflation will rise to 10% ahead of next year. In its May 2022 Monetary Policy Report (MPR), the BoE confirmed that their staff will start work on a strategy for decreasing liquidity in the UK economy through government bond sales. While the reduction of UK government bonds from its balance sheet is not perceived to be an active monetary policy tool, by ceasing to reinvest proceeds of maturing assets they have passively started reducing their stock of assets.

UK unemployment fell to its lowest rate in nearly half a century, whilst job vacancies increased to a new high. The BoE were likely focused on the wage growth data contained within the report which showed strong growth, particularly in construction and finance sectors, and will likely set off a warning light around concerns of second round effects. However, while total pay (including bonuses) continued to grow faster than prices on average, underlying earnings excluding bonuses are now falling sharply in real terms especially in the public sector.

Whilst the tight UK labour market remained a key inflation risk, policymakers have noted that consumer outlook is significantly weakening and increasing the likelihood of recession. Consumer confidence is reported at its lowest point in decades, led by spiking non-discretionary inflation (energy bills). Moreover, May's flash estimates for business output contracted sharply and reported the fourth largest fall on record, now remaining marginally positive. In light of this environment, Chancellor Rishi Sunak unveiled a package of measures to help households with rising energy bills, providing significant support to lower income households. If inflation follows a trajectory set out by the BoE, then the additional help with fuel bills might not do enough to ease the cost-of-living crisis.

Japan

Japanese Government Bond yields slightly rose mainly via the long-end with 10Yr yield ending the month 1bp higher. In overseas bond markets, yields were on an upward trend at the beginning of the month with the 10Yr treasury yield exceeding 3% as the expectation of a large rate hike remained dominant. Subsequently, however, the yield moved lower from the middle to the end of the month as the prospect of an aggressive interest rate hike, but also fears of an economic slowdown in China as well as the continued war in Ukraine, all heightened concerns of a slowdown in the global economy. In the meantime, the impact on the Japan bond market was generally limited.

The overall inflation ex-perishable food recovered to +2% YoY in April as energy and food prices continued to be high, but also the impact of the reduction in phone bills, which had been a major downward factor started to fade. The unemployment rate remained relatively low at 2.5% in April.

As announced at the previous month-end meeting, the Bank of Japan conducted the fixed-yield JGB-buying money market operation at 0.25% for 10-year for all business days while the number of bids received was zero.

Risk Characteristics

	Fund	Benchmark
Average Maturity (Years)	8.70	8.92
Modified Duration (Years)	7.16	7.18
Norminal Yield (%)	2.44	2.51
Convexity	0.89	0.91

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

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

Quality

	Fund %	Benchmark %
Aaa	42.4	42.9
Aa	14.8	14.7
A	28.1	27.8
Baa	13.0	13.1
Ba	0.0	0.0
NR	1.7	1.5

Maturity Exposure

	Fund %	Benchmark %
< 5	40.29	40.28
5 - 10	34.67	34.41
>= 10	25.04	25.30

Country Exposure

	Fund %	Benchmark %
US	37.98	40.58
Japan	14.06	13.93
Germany	4.42	4.47
France	5.32	5.26
UK	5.11	4.88
Italy	3.36	3.15
Canada	3.40	3.58
Other	26.35	24.15

ESG Sector Score

	Fund	Benchmark
Treasuries	5.85	5.83
Government Related	6.59	6.58
Corporates	7.02	6.61
Securitized	7.87	7.62

ESG Score Breakdown

	Fund	Benchmark
Environmental	5.48	5.38
Social	7.09	7.06
Governance	6.28	6.26

Green Bonds Exposure

	Fund %	Benchmark %
Green Bonds	2.31	1.31

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	515 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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