

# iSHARES ESG GLOBAL BOND INDEX FUND



## FUND UPDATE

31 December 2021

### 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)	-0.51	-0.03	-1.67	-1.67	-	-	1.56
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.49	0.00	-1.67	-1.67	-	-	1.57
Outperformance (Gross of Fees)	-0.02	-0.03	-0.01	-0.01	-	-	-0.01
iShares ESG Global Bond Index Fund (Net of Fees) (Class D)	-0.53	-0.08	-1.81	-1.81	-	-	1.31
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.49	0.00	-1.67	-1.67	-	-	1.57
Outperformance (Net of Fees)	-0.04	-0.08	-0.15	-0.15	-	-	-0.26

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

In December, the Federal Open Market Committee (FOMC) doubled the pace of tapering; asset purchases will be reduced by \$20 billion/month for treasuries and \$10 billion/month for agency MBS. The FOMC prescribed the reduction for January and, at the new pace, will wrap up asset purchases in the middle of March. When wrapped up, the Chair said he doesn't expect an extended wait time between the end of asset purchases and rate hikes. This was reflected in the December Summary of Economic Projections (SEP) and dot plot which showed that participants expect that 3 hikes will be appropriate in 2022.

All FOMC participants expect the maximum employment portion of the mandate to be met next year. However, the committee could raise rates before reaching maximum employment. The Chair referred to the balanced approach provision in the framework that addresses times when the maximum employment and price stability goals are not complementary. Under these scenarios the committee takes account of the distance from the goal and the speed at which they're approaching it. This provision will enable them to raise rates because of high inflation, before achieving maximum employment. However, in the Chair's opinion, they are making rapid progress towards maximum employment. The Chair sounded less confident on the pick-up in labor supply than he has previously, highlighting aging population and retirements – a demographic unlikely to re-join the labor force.

Inflation is no longer described as 'transitory' and the risk of more persistent, higher inflation has increased, reflected in the SEP which showed higher core and headline inflation through 2023. November Core CPI, released in December, increased 0.53% MoM, almost exactly in line with consensus average expectations for a 0.52% MoM increase, pushing the year-over-year figure to 4.58%. There were large increases in specific CPI components such as rents, owners'-equivalent-rent (OER), used vehicles and airfares with broad based strength across both goods and services components. Energy prices increased 3.5% over the month and food prices increased 0.7% pushing headline CPI up 0.78% over the month, and up 6.88% year-over-year. This marks the highest level of inflation since 1982.

## Eurozone

Concerns over the Omicron Covid-19 variant faded in December on early signs that the variant comes with a lower risk of hospitalisation. It was a significant month for central bank action however, with updates from the European Central Bank (ECB), the US Federal Reserve and the Bank of England.

The ECB made further upward revisions to their growth and inflation outlook, confirmed PEPP is due to end in March 2022 and gave clarity on monetary policy throughout 2022. The ECB announced a lower expected pace of PEPP purchases in Q1 2022 vs Q4 2021. To avoid a cliff edge effect when PEPP ends in March 2022, a temporary increase to the traditional APP (currently running at €20bn per month) was announced. In Q2 2022 this will run at €40bn, and in Q3 at €30bn. By Q4 2022, the ECB expect this to return to €20bn and continue at this pace for as long as necessary. The reinvestment horizon for securities maturing under PEPP was also extended until at least the end of 2024, versus the previously communicated end of 2023.

The Bank of England announced an increase in base rates of 0.15% to 0.25%. With a vote of 8-1, this was a significant switch around for many members from the 7-2 vote to hold in November, led by continued strong employment data released a couple days ahead of the meeting. Inflation forecasts were also upgraded with UK CPI expected to peak at 6% in April 2021, however inflation markets fell from the highs in December, with the 5y5y inflation swap rate falling to 3.93%.

## UK

December saw the rapid spread from under 1,000 to over 200,000 confirmed cases of the highly infectious Omicron variant across the UK. Against this backdrop, the extent of precautions did not result in reversion to lockdown, but managed to hinder business activity with services in particular reflecting muted figures toward the end of the month. Consequently, whilst remaining in expansionary territory, UK economic momentum wavered as output decreased to levels previously seen in early 2021. The Bank of England (BoE) took action in December and became the first developed market central bank to raise interest rates. Despite this being the first hike, the BoE expects inflation to continue on an upward trajectory until early 2022 as the labour market remains strong in the wake of furlough's end. UK government bond prices fell accordingly; 5-year gilt yields increased 20 bps, whilst 10-year yields increased 16 bps to 0.97% and 30-year yields increased 26 bps to 1.12%.

High inflation statistics showed no signs of abating, most recently unveiled figures in December surprised as the consumer price index (CPI) came in above expectations of 4.9%, reporting 5.1% year-on-year in November. The Bank of England took action to combat increasing inflation at its December meeting, where the Monetary Policy Committee voted by a majority of 8-1 in favor of increasing its main interest rate since the onset of the pandemic from its historic low level of 0.10% to 0.25%. UK government bonds sold off across the curve as yields increased. 5-year gilt yields increased 20 bps, whilst 10-year yields increased 16 bps to 0.97% and 30-year yields increased 26 bps to 1.12%.

Economic indicators remained resilient throughout November, with key manufacturing and service data (Markit UK Composite Output PMI) reading 57.7, down only marginally from October's final reading. New orders continued to rise as both consumer and business spending increased, whilst the labour market remained buoyant despite the closing of the UK's covid job support scheme. Most recent figures report a tightening labour market with a record number of job vacancies across 15 of the 18 industry sectors. Data released in November indicated further 1.17 million job vacancies reported, signaling optimism for

policy makers concerned with the labour markets health. However, the inflationary cost pressure remained top of mind as increasing input costs from materials and wage inflation continued to produce uncertainty. This remains a challenge for monetary policy as BoE Governor, Andrew Bailey, has previously stated that tighter monetary policy is unlikely to address these supply-side problems that are currently the main cause of rising inflation.

The release of UK Composite PMI confirmed the weakest pace of expansion since Q1 2021, reporting a revised figure of 53.6. Weaker recovery momentum in the service sector was the main reason for slower output growth in December as survey respondents cited a negative impact on consumer demand from tighter Omicron measures and renewed travel restrictions. December data indicated another strong rise in private sector employment further feeding central bank inflation expectations. The BoE now projects inflation to peak around 6% in Spring largely due to labour market tightness. Most recent data indicates unemployment has dropped to 4.2% whilst a record 1.2m job vacancies were reported, fueling expectations of wage rises and even more inflation.

Retail sales volume increased 1.4% in November, 7.2% above pre pandemic (February 2020) levels. The increase was led by a rise in volume from non-food stores, which reported an increase of 2.0%, driven by increasing sales in clothing stores. Automotive fuel sales experienced an increase of 3.7%, following decreasing earlier in the quarter as prices continue to fluctuate over supply disruptions. Online spending value decreased slightly from 27.3% to 26.9%, although still well above the pre-Covid figure of 19.7%. The Consumer Price Index including owner occupiers' housing costs (CPIH) 12-month inflation rate increased to 4.6% in November, the highest print in over a decade. The largest upward contribution came from housing and household services in addition to transport as inflationary pressure from energy and fuel was reflected across industry.

## Japan

Japan government bond (JGB) yields rose modestly across the curve, with the 10-year JGB yield ending the month 1.5 bps higher. The US Federal Reserve decided to accelerate its tapering of bond purchases, and its policy rate outlook also suggested a significant acceleration in interest rate hikes. This put upward pressure on yields in the US Treasury market, particularly at the short- and medium-end of the curve, but had little impact on JGB markets, which continued to move within a narrow range.

Although Q3 GDP showed significant negative growth, partly due to a sharp decline in production caused by supply constraints (especially in the automobile sector), a relatively strong recovery is expected from Q4 2021 and onwards. There are no major concerns about exports and capital investment, and there are signs of a recovery in production. The overall inflation levels remained weak, with core CPI hitting modestly higher at +0.5% year-on-year in November. The impact of the reduction in phone bills continued to be a major downward factor, offsetting the inflationary pressure from rising energy prices and the base effect of accommodation prices. The unemployment rate remained relatively low at 2.8% in November.

The Bank of Japan (BoJ) held policy rates unchanged during the December BoJ meeting as widely expected, but announced that it would scale back its Covid-19 funding support, including purchases of corporate bonds and commercial paper, starting from April 2022. However, the BoJ indicated that the situation is such that it is still far from achieving its price target and was in no hurry to move toward policy tightening.

### Risk Characteristics

	Fund	Benchmark
Average Maturity (Years)	8.88	9.11
Modified Duration (Years)	7.55	7.57
Norminal Yield (%)	1.18	1.21
Convexity	0.83	0.85

### Quality

	Fund %	Benchmark %
Aaa	41.8	41.6
Aa	14.8	15.2
A	28.3	27.9
Baa	13.1	13.8
Ba	-	-
NR	2.1	1.5

### Maturity Exposure

	Fund %	Benchmark %
< 5	42.87	41.85
5 - 10	32.86	32.51
>= 10	24.28	25.64

### Country Exposure

	Fund %	Benchmark %
US	34.48	39.22
Japan	14.33	14.18
Germany	4.54	4.66
France	5.34	5.50
UK	5.63	5.42
Italy	3.47	3.35
Canada	3.35	3.43
Other	28.86	24.25

### ESG Sector Score

	Fund	Benchmark
Treasuries	5.95	5.93
Government Related	6.51	6.54
Corporates	6.84	6.47
Securitized	7.72	7.56

### ESG Score Breakdown

	Fund	Benchmark
Environmental	5.40	5.32
Social	7.16	7.12
Governance	6.39	6.37

### Green Bonds Exposure

	Fund %	Benchmark %
Green Bonds	2.22	1.21

### Top 10 Issuers held by ESG score

	ESG Score
BANK OF NOVA SCOTIA	10.0
INTER-AMERICAN DEVELOPMENT BANK	10.0
ADOBE INC	10.0
BANCO BILBAO VIZCAYA ARGENTARIA SA	10.0
BERLIN HYPAG	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	18.4
JAPAN (GOVERNMENT OF)	13.7
BLACKROCK ICS PLC - INSTITUTIONAL US DOLLAR LIQUIDITY FUND	4.4
CHINA PEOPLES REPUBLIC OF (GOVERNMENT)	4.0
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.5
ITALY (REPUBLIC OF)	3.2
UNIFORM MBS	3.2
FRANCE (REPUBLIC OF)	3.1
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION 2	3.0
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (GOVERNMENT)	3.0

## 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	546 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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