

iSHARES ESG AUSTRALIAN BOND INDEX FUND

iShares
by BLACKROCK®

FUND UPDATE

31 March 2024

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
iShares ESG Australian Bond Index Fund (Gross of Fees) (Class E)	1.12	1.03	1.03	1.53	-1.18	0.25	0.74
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	1.12	1.04	1.04	1.57	-1.17	0.25	0.74
Outperformance (Gross of Fees)	-0.01	-0.01	-0.01	-0.04	-0.01	0.00	0.00
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	1.10	0.97	0.97	1.32	-1.38	0.05	0.54
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	1.12	1.04	1.04	1.57	-1.17	0.25	0.74
Outperformance (Net of Fees)	-0.02	-0.06	-0.06	-0.24	-0.21	-0.20	-0.20

Inception date: 1/02/2019

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. Neither the fund nor BlackRock makes any representation or warranty, express or implied, with respect to the fairness, correctness, accuracy, reasonableness or completeness of any ESG related data such as ESG score, or the way they are defined or implemented. ESG data is sourced from MSCI.

Performance Summary

Market Review

The Bloomberg MSCI Australia SRI/ESG-Weighted A\$100M Index (the "Index") returned 1.12% in March. Semi-Governments (1.23%) was the best performing sub-component, followed by Treasuries (1.15%), Credit (0.88%), and Supranational-Sovereigns (0.85%).

Australian 2-year bond yields trended downwards 0.06% over the month to 3.74%, while 10-year yields fell 0.04% to 4.10%.

GDP figures released in the first week of March showed that the Australian economy slowed to a crawl in Q4 2023 amidst weak consumer spending. GDP rose 0.2%, compared with an upwardly revised 0.3% expansion for Q3. Annual growth slowed to 1.5% YoY, down from 2.1% for the previous quarter, marking the lowest since early 2021. While both QoQ and YoY figures were in line with expectations, this indicated that monetary policy is restrictive and having an impact on the economy.

The second RBA rate decision of 2024 later in the month saw the RBA leaving its cash rate unchanged at a 12-year high of 4.35%, a widely expected result. The RBA statement moved to a neutral policy stance, stating that it was "not ruling anything in or out", and alluded to the possibility of rate cuts as long as inflation is moving sustainably towards the target range. Labour market data that followed rebounded sharply, with employment resurgent as the unemployment rate fell to 3.7% against forecasts of 4.0%, a sign that the job market was still tight. Inflation data to end the month held steady for the second month in a row, as February's CPI rose 3.4% YoY, below expectations of 3.5%. Stabilizing near the pace of the increases in January and December, the data showed that inflation is tracking towards the RBA's target range of 2% to 3%.

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In the US, 2-year treasury yields rose by 0.13% to 4.75% while the 10-year yield also moved up 0.15% to 4.40%.

Labour market data early in the month saw US job growth accelerating, as nonfarm payrolls increased by 275,000, topping expectations. Yet, the unemployment rate rose to a two-year high of 3.9%, an indication of softening underlying labour market conditions. The last key test before the upcoming Fed meeting saw CPI surprising to the upside for the second month in a row. Headline CPI for February rose 0.4%, the same increase as Core CPI.

With the Fed indicating it needed more evidence to cut rates, the decision at the FOMC meeting came as no surprise, and was the fifth consecutive time where the Fed held rates steady. Along with the decision, the Fed's dot plot signaled that the Fed still plans multiple cuts before the end of the year, with three quarter-point cuts penciled in. This was despite projections for Core PCE this year rising to 2.6% and real GDP growth revised sharply up to 2.1%.

To end the month, Core PCE, the Fed's preferred measure of inflation, showed inflation moderating, coming in at 0.3% for February, bringing the YoY figure to 2.8%, with both figures in line with expectations. This was the smallest YoY gain since March 2021. Accompanying consumer spending data shot up 0.8%, well ahead of estimates of 0.5%. Personal income rose 0.3%, slightly softer than estimates. Fed Chair Powell reiterated that the Fed will not be ready to cut rates until it sees "more good inflation readings".

Outlook

Our thinking had been the RBA would hike a final time in Q1 2024 tightening financial conditions a little more and instilling the bank with more confidence around hitting their 2-3% inflation target. However, the RBA thinks overall financial conditions in Australia are restrictive enough for households. It now feels like a very high hurdle to get the RBA hiking again. Accordingly, we expect the cash rate to be held at the current level for an extended period, at least until Q4 2024. The risks to our view are that cuts are delayed into 2025 due to ongoing "sticky" services inflation. Conversely, an unexpected weakening in the labour market could bring about an earlier than expected cut in interest rates. In the US, markets continue to be keenly focused on economic inflation data for signs on when the Fed might begin cutting rates.

Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	49.1
NEW SOUTH WALES TREASURY CORPORATION	8.8
TREASURY CORPORATION OF VICTORIA	8.2
QUEENSLAND TREASURY CORPORATION	6.7
WESTERN AUSTRALIAN TREASURY CORPORATION	2.6
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	2.0
INTERNATIONAL FINANCE CORP	1.8
KFW	1.6
EUROPEAN INVESTMENT BANK	1.2
ASIAN DEVELOPMENT BANK	1.2

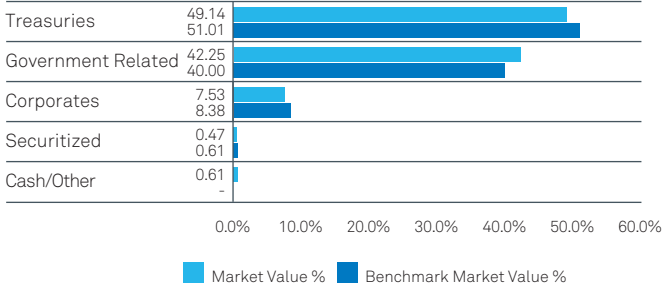
Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	4.98	4.98	0.00
Duration x spread	1.55	1.66	-0.11
Yield	4.12	4.13	-0.02
Average Coupon (%)	2.75	2.82	-0.07
Average Maturity (Years)	5.85	5.87	-0.02
ESG Score	7.26	7.19	0.06

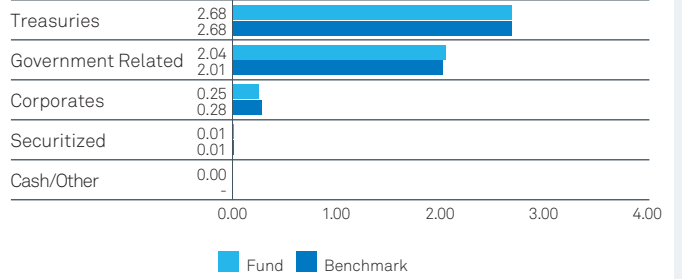
Top 10 Issuers held by ESG score

Issuer	ESG Score
KFW	10.0
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	10.0
NORDIC INVESTMENT BANK	10.0
SUNCORP METWAY LTD	10.0
TRANSURBAN QUEENSLAND FINANCE PTY LTD	10.0
INTERNATIONAL FINANCE CORP	10.0
CNH INDUSTRIAL CAPITAL AUSTRALIA PTY LTD	9.7
EUROFIMA	9.5
INTER-AMERICAN DEVELOPMENT BANK	9.5
EUROPEAN INVESTMENT BANK	9.5

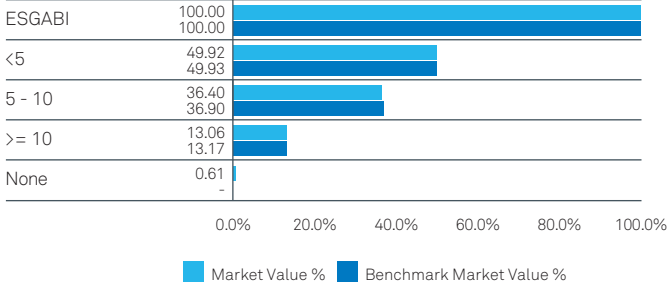
Sector Exposure



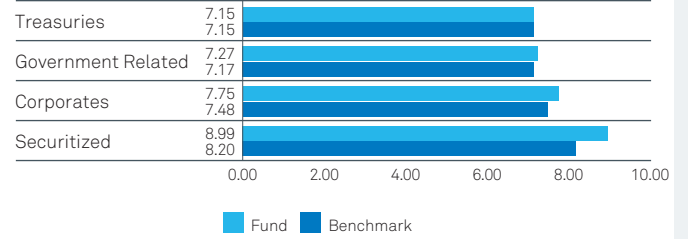
Contribution to Modified Duration



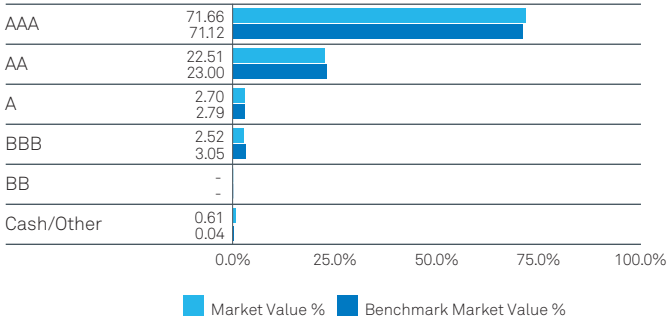
Maturity Exposure



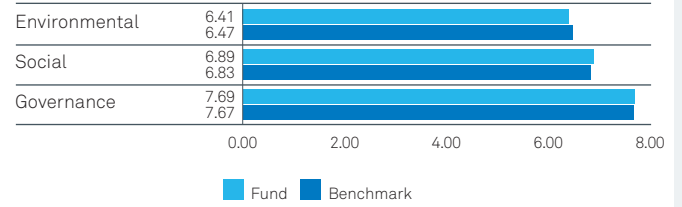
ESG Sector Score



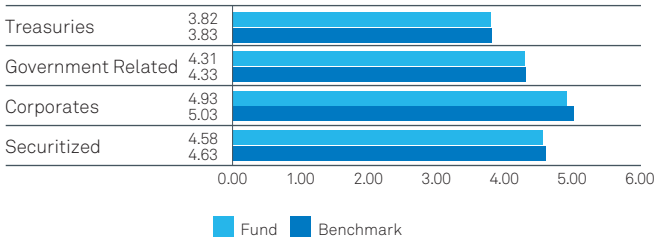
Quality Exposure



ESG Score Breakdown



Yield



About the Fund

Investment Objective

The Fund aims to match the performance of a customised Bloomberg Barclays MSCI Australian Socially Responsible (SRI) and ESG-weighted Index before fees.

Fund Strategy

The Fund excludes non-government securities associated with fossil fuels, alcohol, tobacco, gambling, adult entertainment, genetically modified organisms, military weapons, civilian firearms, nuclear power. The definitions for exclusions are based on the Bloomberg Barclays Index exclusion methodology.

The strategy aims to track the benchmark by closely matching the distribution of the benchmark's major risk and return factors. This is done using a methodology commonly referred to as stratified sampling, where the benchmark and the investment portfolio are broken down into "cells" of securities with similar risk and return factors. The major risk and return factors are interest-rate risk, sector risk and specific (individual security) risk. We select securities that match the overall characteristics of each cell in amounts consistent with the index weighting and modified duration of the cells they represent. By matching at the cell level, the overall risk and return characteristics of the portfolio will closely match those of the benchmark.

Should be considered by investors who ...

- ▶ Seek a broad exposure to Australian bonds.
- ▶ Seek a fund that screens for improved ESG outcomes.
- ▶ Seek a fund that uses a stratified-sampling approach so returns match as closely as possible those of the benchmark before fees.
- ▶ Have a long term investment horizon.

Fund Details

iShares ESG Australian Bond Index Fund (Class E)

APIR	BLK9562AU
Fund size	678 mil
Buy/Sell Spread	0.05%/0.05%
Tracking Error (3 years p.a.)	0.03%

iShares ESG Australian Bond Index Fund (Class D)

APIR	BLK2127AU
Management Fee (Class D Units)	0.20% p.a.

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ESG Scoring and ratings

ESG Score:

The Overall ESG Scores represents either the ESG Ratings Final Ind.- Adjusted Score or Government Adjusted ESG Score of the issuer. ESG Ratings indicate how well an issuer manages its most material ESG risks relative to sector peers.

Environmental Score:

The Overall ESG Environmental Score represents either the Intangible Value Assessment (IVA) Environmental Pillar Score or Government Rating Environmental Pillar Score of the issuer. The score indicates how well an issuer manages its environmental issues. Score ranges from 0-10. Vendor: MSCI

Social Score:

The Overall ESG Social Score represents either the Intangible Value Assessment (IVA) Social Pillar Score or Government Rating Social Pillar Score of the issuer. The score indicates how well an issuer manages its social issues. Score ranges from 0-10. Vendor: MSCI

Governance Score:

The Overall ESG Governance Score represents either the Intangible Value Assessment (IVA) Governance Pillar Score or Government Rating Governance Pillar Score of the issuer. The score indicates how well an issuer manages its governance issues. Score ranges from 0-10. Vendor: MSCI