Product Assessment

Report as at 07 Mar 2024

RECOMMENDED

iShares ESG Screened Global Bond Index Fund

Rating issued on 07 Mar 2024 | APIR: BLK4636AU

Investment objective

To match the performance of a customised Bloomberg MSCI Global Aggregate SRI Select ex-Fossil Fuels Index (AUD hedged) before fees.

Manager	BlackRock Investment Management (Australia) Limited
Distributor	BlackRock Investment Management (Australia) Limited
Sector	International Fixed Interest \ Bonds
Investment Style	Index - Other
RI Classification	Integrated
Absolute Risk	Low
Relative Risk	Index
Investment Timeframe	3-4 Years
Benchmark	Bloomberg Global Aggregate $A (Hdg)
Min Investment Amount	$500,000
Redemption Frequency	Daily
Income Distribution	Quarterly
Fund Size (31 Jan 2024)	$276.35M
Management Cost	0.20% p.a. Incl. GST
Performance Fee	N/A
Buy / Sell Spread	0.10% / 0.10%
Inception Date	01 Aug 2019

Fund facts

- Seeks to produce a gross return consistent with that of its tailored benchmark
- Implements a stratified sampling approach, with a focus on cost-efficient execution
- Managed to a tailored ESG benchmark that has been constructed by Bloomberg Barclays in collaboration with MSCI

Viewpoint

The Fund, managed by BlackRock Investment Management Limited (BlackRock), provides cost-efficient exposure to a diversified portfolio of global fixed interest securities, whilst operating within a clearly defined Environmental, Social & Governance (ESG) framework. Through a stratified sampling approach to portfolio management, the Fund is designed to produce investment outcomes broadly consistent with that of its tailored benchmark. In Zenith opinion, BlackRock's stratified sampling is a compelling approach, with BlackRock possessing strong capabilities in the index-orientated strategy space to undertake the process in a cost effective way.

BlackRock is publicly listed and employs approximately 19,800, staff located in 38 countries across the world. As at 31 December 2023, BlackRock managed approximately $US 10.01 trillion in funds under management (FUM), with $US 6.62 trillion in passive investment solutions, including the Fund.

Responsibility for the Fund rests with BlackRock's London-based Core Portfolio Management (CPM) team, which comprises over 30 members, with team members split according to investment function (i.e. portfolio management, strategy, credit research and risk management) and area of expertise (including Rates & Inflation, Credit & Multi-Sector, Technology and Core PM Architecture).

Leading the team is John Hutson, Managing Director, is the Head of Indexed Fixed Income Portfolio Management in EMEA. As business lead, Hutson is responsible for BlackRock's Systematic Fixed Income portfolios, across EMEA, including executing business and product priorities, and oversight of the CPM team.

In targeting an index return, BlackRock does not hold all securities within the benchmark. Rather, BlackRock seeks to achieve a commensurate total return by implementing a systematic process that focuses on key factor exposures (i.e. duration, spread) as a means of index replication. Referred to as 'stratified sampling', this approach is focused on identifying common risk factors and grouping these into like buckets such as maturity, sector, credit quality and industry.

Portfolio construction is largely systematic and relies heavily on BlackRock's proprietary systems to develop an understanding of the underlying risk and return drivers of each bucket. The team will then select a sample of eligible securities that when combined, reflect the overall characteristics of the index. BlackRock also uses a number of tools to minimise transaction costs. Included amongst these are electronic trading platforms, internal crossing networks and exchange-traded interest rate derivatives.

The Fund is managed to a tailored ESG benchmark which excludes issuers engaged in various adverse business activities, in favour of those that promote ESG compliant activities. This benchmark is constructed by Bloomberg Barclays in collaboration with MSCI, who in addition to its tailored indexing services, monitors the activities of corporates and assigns independent ESG ratings and controversy scores.

Fund analysis

Fund characteristics

Constraint	Value
Tracking Error (% p.a.)	Max: 0.4% p.a.

Investment objective and philosophy

The Fund aims to provide investors with a gross return equal to that of its custom benchmark, the Bloomberg MSCI Global Aggregate SRI Select ex Fossil Fuels Index (AUD hedged).

BlackRock's passive investment process is guided by its philosophy which is focused on Total Performance Management. This states that in order to achieve the Fund's return objective, risk must be understood and adequately compensated while concurrently taking transaction costs into consideration. Furthermore, it is essential that portfolio managers have a detailed understanding of the benchmark, its core characteristics, potential index changes and the issuance of new securities. This in turn necessitates detailed portfolio analysis, benchmark research in support of portfolio construction, and established trade execution processes.

In targeting an index return, BlackRock does not seek to hold all securities within the benchmark. Whilst it is acknowledged that a full replication approach can produce optimal Tracking Error results, it will also lead to a rise in transaction costs relative to alternative methods. Accordingly, BlackRock adopts a 'stratified sampling' approach to portfolio construction, with the aim of producing a commensurate total return through the replication of factors and characteristics of the benchmark.

Zenith believes BlackRock applies a comprehensive approach to passive investment, effectively leveraging key business units and sophisticated risk management infrastructure. Furthermore, Zenith views this approach as highly systematic and well considered, with a strong focus on the balance between risk and transaction costs.

Portfolio applications

Bonds are longer-dated fixed income securities that seek to provide investors with a regular income stream and the return of capital at a predefined future date. Bonds can form a key component of an investor’s portfolio and more specifically their exposure to the fixed interest asset class, owing to the defensive characteristics that they often exhibit. An inverse relationship exists between the price of bonds and interest rates, the extent of which is not linear and varies according to existing market conditions and the perception of risk. Bonds generally exhibit a negative correlation with equities and will rise in price when growth assets are falling (and vice versa). Bonds are more likely to be favoured during times of heightened risk aversion and typically dampen investment portfolios against capital drawdowns.

The Fund provides exposure to a diversified portfolio of international fixed interest securities, whilst operating within a clearly defined ESG framework. Through a passive approach to portfolio-management, the Fund is designed to produce investment outcomes that are broadly consistent with that of its tailored benchmark. The existence of tight mandate and risk constraints make the Fund suitable as a core global fixed interest allocation for those with an investment horizon of three or more years.

From a portfolio perspective, the Fund may be suitable for blending with Australian fixed interest strategies, and when combined, may produce a more balanced set of investment outcomes. Due to the anticipated moderate levels of volatility, with the potential for capital loss, Zenith recommends taking a medium-term investment time frame. We caution against the Fund being used by investors with short-term liquidity needs.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Integrated
Has Responsible Investment Policy	Yes
Negative screens**	**Full/Partial**
Alcohol	Partial
Armaments	Partial
Fossil fuels	Full
Adult Entertainment	Partial
Tobacco	Partial
Nuclear Power	Partial
Other Measures	Civilian firearms, genetically modified organisms (F)
PRI Status	
PRI Signatory	Yes

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

***Data has been supplied by third parties. While such information is believed to be accurate, we do not accept responsibility for any inaccuracy in such data.*

Absolute performance

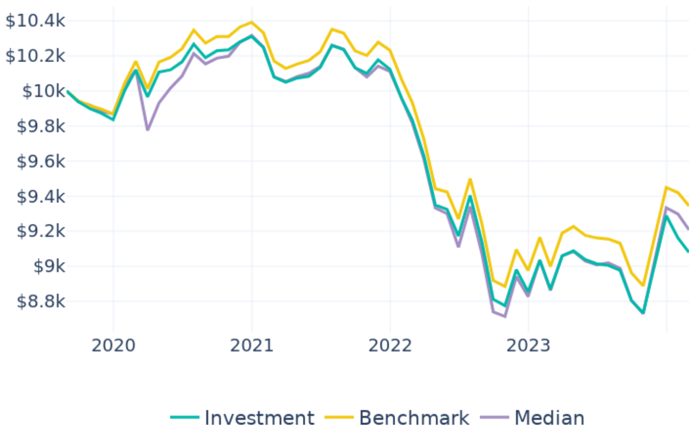
Performance as at 29 Feb 2024

Monthly performance history (%, net of fees)

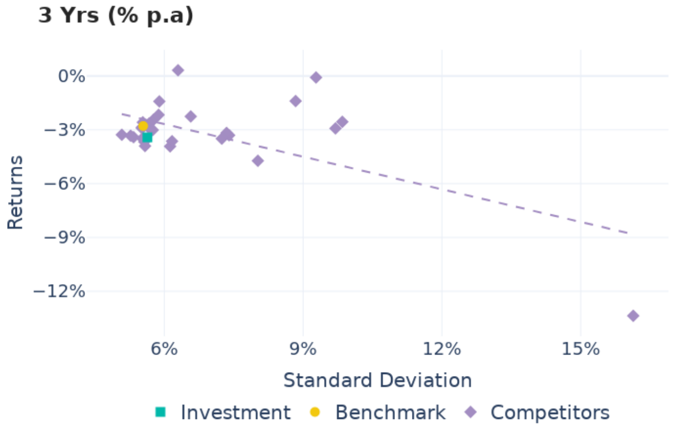
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	-1.38%	-0.89%											-2.26%	-1.11%
2023	2.04%	-1.84%	2.14%	0.32%	-0.55%	-0.26%	-0.10%	-0.31%	-1.92%	-0.81%	3.20%	3.06%	4.91%	5.27%
2022	-1.64%	-1.23%	-2.11%	-2.90%	-0.26%	-1.63%	2.53%	-2.84%	-3.57%	-0.41%	2.35%	-1.41%	-12.55%	-12.28%
2021	-0.62%	-1.65%	-0.28%	0.23%	0.11%	0.49%	1.24%	-0.23%	-1.01%	-0.32%	0.77%	-0.52%	-1.81%	-1.53%
2020	1.72%	1.15%	-1.51%	1.41%	0.14%	0.45%	1.00%	-0.76%	0.40%	0.05%	0.45%	0.30%	4.83%	5.30%

**Bloomberg Global Aggregate $A (Hdg)*

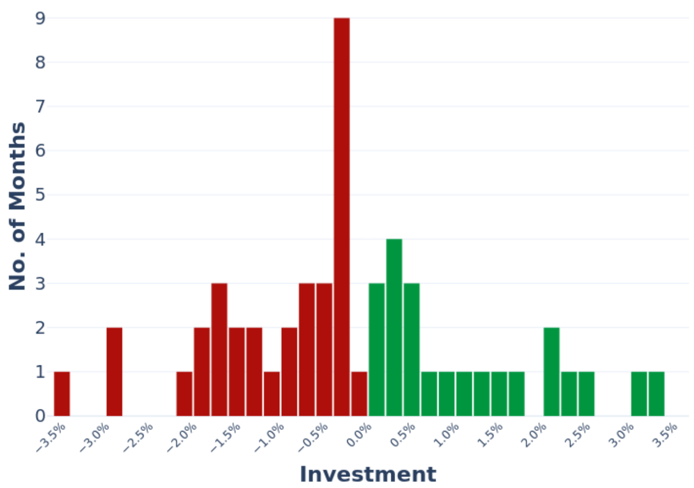
Growth of $10,000



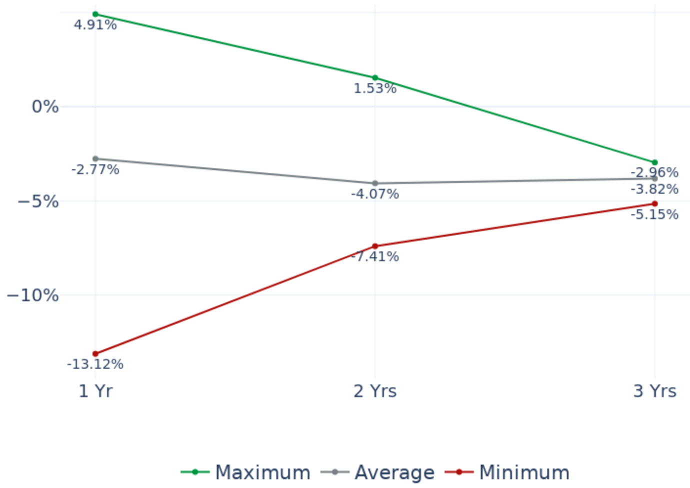
Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)



Absolute performance analysis

Instrument	6 Mths	1 Yr	2 Yrs	3 Yrs	Inception
Investment	**1.14%**	**2.37%**	**-3.92%**	**-3.42%**	**-2.12%**
Income	0.45%	1.12%	1.06%	1.96%	1.33%
Growth	0.68%	1.25%	-4.98%	-5.38%	-3.45%
Benchmark	**2.33%**	**3.83%**	**-3.02%**	**-2.79%**	**-1.50%**
Median	**2.45%**	**3.91%**	**-3.16%**	**-2.97%**	**-1.82%**
Cash	**2.09%**	**4.07%**	**2.91%**	**1.94%**	**1.44%**

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	Inception
Fund Ranking	27 / 29	18 / 25	16 / 23
Quartile	4th	3rd	3rd

Absolute risk

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Standard Deviation (% p.a.)				
Investment	5.60%	6.61%	5.64%	4.97%
Benchmark	5.28%	6.49%	5.54%	4.90%
Median	5.78%	6.95%	5.88%	5.38%
Downside Deviation (% p.a.)				
Investment	2.74%	4.97%	4.29%	3.71%
Benchmark	2.29%	4.77%	4.14%	3.57%
Median	2.55%	5.04%	4.35%	4.01%

Absolute risk/return ratios

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Sharpe Ratio (p.a.)				
Investment	-0.30	-1.03	-0.95	-0.72
Benchmark	-0.04	-0.91	-0.85	-0.60
Median	-0.03	-0.87	-0.84	-0.61
Sortino Ratio (p.a.)				
Investment	-0.62	-1.37	-1.25	-0.96
Benchmark	-0.10	-1.24	-1.14	-0.82
Median	-0.06	-1.20	-1.13	-0.81

Zenith benchmarks funds in the 'Global Fixed Interest - Bonds' peer group against the Barclays Global Aggregate Index Hedged ($A). While this benchmark may not be consistent with the one adhered to by all rated participants, it has been adopted to provide investors with a common reference point against which similarly structured strategies may be assessed.

The following commentary is effective as at 31 January 2024.

The Fund aims to provide investors with a gross return equal to that of its custom benchmark, the Bloomberg MSCI Global Aggregate SRI Select ex Fossil Fuels Index (AUD hedged).

The Fund has closely matched the index over all periods.

Relative performance

Excess returns

Statistic	6 Mths	1 Yr	2 Yrs	3 Yrs	Inception
Excess Return	-1.20%	-1.46%	-0.91%	-0.63%	-0.63%
Monthly Excess (All Mkts)	50.00%	33.33%	29.17%	30.56%	27.78%
Monthly Excess (Up Mkts)	100.00%	75.00%	57.14%	50.00%	38.10%
Monthly Excess (Down Mkts)	25.00%	12.50%	17.65%	20.83%	21.21%

Capture ratios (% p.a.)

Statistic	6 Mths	1 Yr	2 Yrs	3 Yrs	Inception
Downside Capture	131.82%	128.85%	108.38%	106.73%	106.93%
Upside Capture	100.75%	99.87%	99.65%	99.21%	97.65%

Tracking error (% p.a.)

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Investment	1.01%	0.74%	0.62%	0.52%
Median	0.58%	0.61%	0.54%	1.08%

Information ratio

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Investment	-1.45	-1.23	-1.02	-1.21
Median	0.13	-0.24	-0.35	-0.30

Beta statistics

Statistic	1 Yr	2 Yrs	3 Yrs	Inception
Beta	1.04	1.01	1.01	1.01
R-Squared	0.97	0.99	0.99	0.99
Correlation	0.98	0.99	0.99	0.99

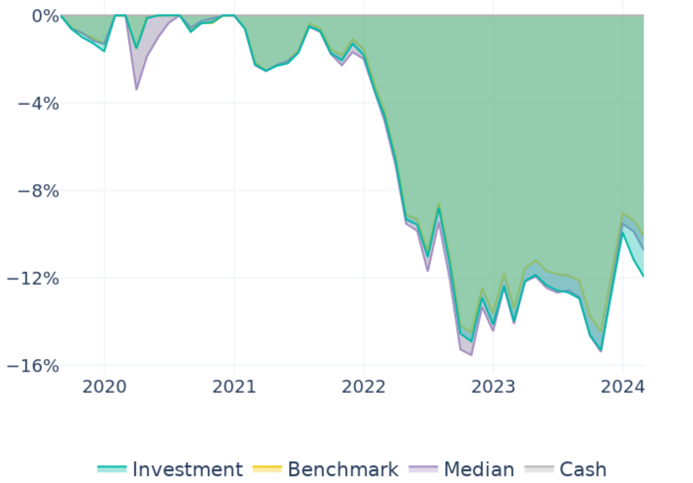
The commentary below is effective 31 January 2024.

Zenith seeks to identify funds that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill.

Given the Fund's passive nature, it is not expected to outperform. However, we note the Fund's Tracking Error has remained within the targeted range of 0.4% p.a. over the medium to long term.

Drawdown analysis (since inception)

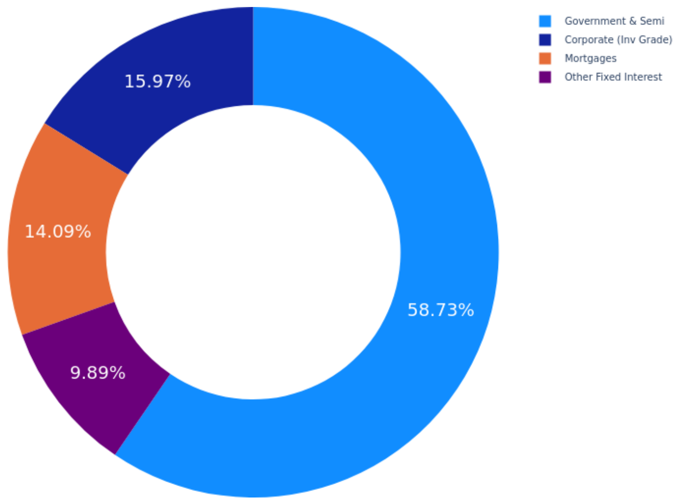
Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.



The commentary below is effective 31 January 2024.

As expected for an index fund, the Fund has exibited a drawdown profile that has closely matched the benchmark since inception.

Fixed interest sector holdings



Fund commentary

Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

Performance risk: In the management of the Fund, BlackRock does not seek to fully replicate the index (by holding). By consequence, there is a risk, albeit small, that the Fund produces a return below that of its targeted benchmark when viewed on a 'gross of fees' basis.

Tracking error risk: As an index strategy, a key risk is the generation of Tracking Error, the existence of which may see Fund performance deviate from that of its targeted benchmark. However, BlackRock has a track record of managing fixed interest funds within tight Tracking Error constraints.

Distribution risk: The Fund operates under a policy that prevents it from distributing income when losses are experienced as a result of currency hedging activities. Accordingly, should hedging losses accumulate, BlackRock would be precluded from making distributions until such time that they have been fully cleared.

Concentration Risk: As at 31 January 2024, the Fund was approximately $A **TBC** million in size. Of this amount, a significant proportion was represented by an institutional investor. Should this investor redeem, there is a risk that remaining unitholders be negatively impacted in both performance and taxation terms.

Security/asset selection

The Fund's investment universe consists of all securities eligible for inclusion in its custom benchmark, the Bloomberg MSCI Global Aggregate SRI Select ex Fossil Fuels Index (AUD hedged). BlackRock may also take positions in non-benchmark securities, however these exposures will be limited to those that are expected to be included in the benchmark in the near term.

Given the nature of the strategy, security selection plays a limited role in achieving the Fund's objective. Notwithstanding this, the use of stratified sampling in certain segments of the market, particularly in the corporate sector, enables BlackRock to add value by applying a judgemental overlay. In deciding on which securities to purchase, or which to exclude, the team leverages the extensive fundamental research available through BlackRock's global network of credit analysts. While there appears to be some discretion in security selection, it should be noted that this process occurs within a limited framework and is not permitted to have a material influence on the portfolio's overall risk/return profile.

Tailored ESG Overlay

The Fund's tailored ESG benchmark excludes issuers engaged in various adverse business activities. This benchmark is constructed by Bloomberg Barclays in collaboration with MSCI, who in addition to its tailored indexing services, monitors the activities of corporates and assigns independent ESG ratings and controversy scores.

With respect to exclusions, these include those issuers that generate earnings (subject to revenue thresholds) from the production of tobacco, alcohol, military weapons, civil firearms, nuclear power, adult entertainment and genetically modified organisms (GMOs). Issuers with an industry tie to fossil fuels (thermal coal, oil and gas) and those involved in major ESG controversies are also screened out. In addition, BlackRock screen out Treasury and Government-related issuers with an MSCI ESG Government rating of 'B' or 'CCC'.

Zenith views favourably the use of an independent agency for the purposes of monitoring and assessing issuer behaviours, believing this adds to the robustness of BlackRock's ESG framework.

Responsible investment approach

BlackRock has an established Responsible Investment Policy (RIP) that was last updated in March 2023. Compliance with the RIP is monitored by BlackRock's Sustainable Investment Team alongside BlackRock's Risk and Quantitative Analysis (RQA) Team. BlackRock has advised that for the 12 months to 31 December 2023, there have been no material breaches of its RIP globally.

BlackRock has been a signatory to the United Nations Principles for Responsible Investment (UN PRI) since 2008.

BlackRock has established a number of formal committees tasked with the development and monitoring of group-wide ESG policies. Furthermore, BlackRock has added resourcing in the area of technology, with the goal of improving ESG related reporting. An example of this is the addition of issuer-level ESG data into their internal risk management system, Aladdin.

In terms of exclusions (and the application of positive screens), these are detailed in security selection.

Zenith has assigned the Fund a Responsible Investment Classification of Integrated.

Portfolio construction

As detailed earlier, BlackRock employs a quantitatively-based stratified sampling process, focusing on key factor exposures as a means of index replication.

Under this approach, components of the index are grouped into a number of buckets, each defined by common characteristics such as maturity, sector, credit quality and industry. The team then use BlackRock's proprietary software to develop an understanding of the underlying risk and return drivers of each bucket and collectively the index. BlackRock will then select a sample of eligible securities that when combined, reflect the overall characteristics of each bucket. This approach seeks to achieve a consistent balance between producing low Tracking Error while keeping transaction costs to a minimum.

While BlackRock's stratified approach is expected to achieve controlled Tracking Error outcomes, the team also has the flexibility to generate incremental outperformance from security selection decisions. While this discretion is tightly monitored, where securities in the same bucket exhibit relative value or fundamental differences, the portfolio managers may tilt the portfolio to the more attractive issuers.

Other sources of return enhancements and cost minimisation strategies available to BlackRock include:

- Buying new issues in the primary market that are expected to be included in the index
- Holding bonds to maturity
- Maintaining different weighted security exposures to a particular issuer in order to achieve an efficient cumulative position, and
- Crossing trades between BlackRock funds where possible.

The Fund's targeted benchmark includes a meaningful allocation to pools of MBS. Generally, MBS markets are characterised by lower levels of liquidity relative to other fixed income markets, often making them difficult to access by investors. As such, BlackRock choose to trade mortgage TBAs (“To be announced”), a liquid security that is in effect a contract to buy or sell MBS on a specific date. These securities are most liquid during US market hours. Addressing the difference in time zones, the index team allocates capital to BlackRock's San Francisco based mortgage team, who in turn manage the allocation through a mix of TBAs and discrete MBS pools.

The Fund seeks to fully hedge currency exposures back to AUD. BlackRock employs a monthly static hedging process whereby the portfolio is hedged using rolling one-month forward contracts. In the interest of keeping transaction costs to a minimum, BlackRock will not adjust the currency hedge to reflect changes in the position over the month. While this strategy will on occasion result in an imperfect currency hedge, Zenith notes that it is reflective of standard market practices.

Zenith believes the combination of technology and team experience places BlackRock in a favourable position to deliver upon targeted portfolio outcomes.

Risk management

BlackRock has in place risk management tools and software that allow extensive monitoring and control of risk in the underlying portfolios. Of the tools available, BlackRock's internally developed 'Aladdin' system is most notable. Aladdin is designed to provide a flexible reporting capability to portfolio managers, allowing them to closely monitor positions while also aligning funds with the majority of BlackRock's operations across all regions.

As the Fund adheres to a passive investment style, Tracking Error is a major consideration in portfolio construction. As such, BlackRock utilise Aladdin to assess key risks of the benchmark and subsequently the portfolio with the ultimate goal of minimising the volatility of portfolio returns relative to the benchmark. Defined as a portfolio objective, the team aims to achieve Tracking Error of less than 0.40% p.a.

BlackRock places significant importance on identifying key risk factors within the target benchmark so that these may be replicated in the portfolio. Given the complexity of this approach, BlackRock employ multi-factor risk models that are capable of conducting risk analysis at the level of granularity demanded by the strategy. Spanning a range of factors such as duration and convexity, these models allow BlackRock to control specific factors while also helping to assess and remove inadvertent biases from the portfolio.

Zenith believes BlackRock's risk management capability is underpinned by one of the more advanced technology platforms in the market, and further, is complemented by the team's sound understanding of risks associated with managing a passive investment strategy.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	0.28% p.a.	0.47% p.a.
Management Fees and Costs	0.20% p.a.	0.43% p.a.
Transaction Costs	0.08% p.a.	0.04% p.a.
Performance fees as at 30 Jun 2023	0.00%	0.00%
Performance fees description	N/A	
Management Cost	0.20% p.a.	0.44% p.a.
Buy / Sell spread	0.10% / 0.10%	0.10% / 0.10%

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

The sector average cost (in the table above) is based on the average management cost of all flagship Global Fixed Interest - Bond funds surveyed by Zenith.

In a relative context, Zenith considers the Fund's cost structure to be highly competitive.

(The fees mentioned above are reflective of the flagship version only, fees may differ when the product is accessed through an alternate investment vehicle such as a platform).

About the fund manager

Organisation

BlackRock was established in 1988 as the investment management group within the private equity firm Blackstone Group. Following a number of ownership changes, BlackRock merged with Merrill Lynch Investment Management (MLIM) while retaining the BlackRock name. In 2009, BlackRock acquired Barclays Global Investments (BGI) and merged the two businesses. In January 2024, BlackRock also announced that it had entered into an agreement to acquire Global Infrastructure Partners (GIP), the world’s largest independent infrastructure manager. It is anticipated that the transaction be will completed in the second half of 2024.

BlackRock employs approximately 19,800 staff located in 38 countries, with approximately $US 10 trillion in funds under management, as at 31 January 2024.

In a global context, BlackRock dedicates significant resources to the management of its range of index-orientated fixed income strategies, with passive operation's remaining a core business and contributor to overall group earnings. An industry leader within the indexing space, BlackRock enjoys considerable economies of scale, most notably in terms of improved trade execution and cost minimisation. Zenith continues to retain a high regard for BlackRock's capability in this market segment, noting the organisation's well-established record in managing passive style investment strategies.

As at 31 December 2023, BlackRock was managing approximately $US 6.22 trillion in a passive fashion. As at the same date, BlackRock managed $A 276.35 million within this Fund.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
John Hutson	Head of EMEA Systematic & Index Fixed Income Core Portfolio Management	22	12	London, UK
Tristan Hockin	Senior Portfolio Manager - Multi-Sector	11	11	London, UK
Lizi Nicol	Portfolio Manager - Multi-Sector	5	5	London, UK

The management of BlackRock's passive portfolios (comprising both index and ETF) rests with its Core Portfolio Management (CPM) team which is co-located across San Francisco and London. This business unit sits within BlackRock's broader global fixed income team which comprises over 400 investment professionals spread across a broad range of geographies, market segments and specialisations.

Responsibility for the Fund rests with BlackRock’s London-based CPM team, which comprises over 30 members, each of whom are split according to investment function (i.e. portfolio management, strategy, credit research and risk management) and area of expertise (including Rates & Inflation, Credit & Aggregate and Core PM Architecture).

Leading the team is John Hutson, Head of EMEA Systematic & Index Fixed Income Core Portfolio Management. As business lead, Hutson is responsible for BlackRock's Systematic Fixed Income portfolios, across EMEA, including executing business and product priorities, and oversight of the CPM team.

With respect to the management of the strategy, Hutson together with Tristan Hockin (Senior Portfolio Manager - Multi Sector), and Lizi Nicol (Portfolio Manager - Multi Sector) are responsible for its day-to-day management, currency hedging and cash flow management.

Zenith believes the investment team possess the requisite experience and skills necessary to manage the Fund effectively. Furthermore, given BlackRock's considerable resourcing and systematic (and repeatable) investment process, we do not consider key person risk to be an issue in the management of the Fund.

About the sector

Sector characteristics

The Zenith 'International Fixed Interest - Bonds' sub-sector consists of long-only funds investing in Global Fixed Interest markets. The sector incorporates both benchmark aware and benchmark unaware strategies. Managers commonly seek to generate returns through active rate, yield curve and cross-country strategies, with security selection a further source of value-add.

Zenith benchmarks all funds in this space against the Bloomberg Global Aggregate Index Hedged ($A), which is reflective of the underlying benchmark used by the majority of managers in this category. The index is constructed based on a set of eligibility and inclusion rules, rebalancing mechanics, and weighting and aggregation rules.

The Global Fixed Interest market, as represented by the Bloomberg Global Aggregate Index, consists of over 29,000 investment grade securities (BBB or higher rated). Issuers fall under the categories of Governments/Sovereigns, Agency/Supranational, Corporations, Mortgage Backed Securities and Securitised. Due to the increased issuance by Governments in recent years, the market is dominated by Government/Sovereigns and Agency/Supranational securities, accounting for over 64% of the market. The index provides global diversification with over 47 countries represented from North America, Europe and Asia. The United States is the largest index constituent accounting for approximately 45% of the index weight, followed by Japan which accounts for approximately 7%.

Sector risks

Funds within the 'International Fixed Interest – Bonds' sub-sector are exposed to the following broad risks:

Market risk: Changes in economic, technological, environmental or political conditions and market sentiment may lead to a decline in general security prices and overall market volatility. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously.

Interest rate risk: Fixed Interest securities are generally sensitive to changes in interest rates. An increase in interest rates may result in a fall in the value of these securities, while a decrease in interest rates can result in an increase in value.

Credit spread risk: In addition to being sensitive to general interest rate changes, non-government securities are also sensitive to changes in credit spreads (commonly the difference in yield between a Government Bond and a Corporate Bond). A widening of spreads results in a fall in the value of these securities.

Default risk: Given Fixed Interest securities represent loans to borrowers (including governments, banks and companies), there is a risk that these borrowers may default on interest or principal repayments. Default risk is often reflected in credit ratings assigned by various credit agencies, which are subject to change.

Currency risk: In addition to being exposed to general market risk, investments in international markets are exposed to changes in the value of the Australian Dollar relative to other foreign currencies. This may lead to increased volatility, independent of market moves. While Fixed Interest funds typically hedge their foreign investments back into Australian Dollars, there can be no guarantee that the funds will be hedged at all times or that a manager will be successful in employing the hedge.

Liquidity risk: Fixed Interest markets can experience periods of illiquidity, which can result in difficulties in buying or selling securities without adversely impacting the price.

Derivative risk: Derivatives are commonly employed by Fixed Interest managers to hedge Currency and other risks and/or as an alternative to direct purchases or sales of underlying assets. There are multiple risks associated with the use of derivatives; for example, the value of the derivative may not move in line with the underlying asset, counterparties to the derivative may not be able to meet payment obligations or a particular derivative may be difficult or costly to trade.

Zenith rating

Report certification

Date of issue: 07 Mar 2024

Role	Analyst	Title
Analyst	Alan Chuong	Associate Investment Analyst
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Authoriser	Bronwen Moncrieff	Head of Research

Association & relationship

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Rating history

As At	Rating
07 Mar 2024	Recommended
09 Mar 2023	Recommended
02 Mar 2022	Recommended
01 Mar 2021	Recommended
27 Feb 2020	Recommended
16 Dec 2019	Not Rated - Screened Out

Last 5 years only displayed. Longer histories available on request.

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