

# iShares ESG SCREENED GLOBAL BOND INDEX FUND

**iShares®**  
by BLACKROCK®

## FUND UPDATE

31 January 2024

### Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
iShares ESG Screened Global Bond Index Fund (Gross of Fees) (Class E)	-0.40	5.99	-0.40	2.61	-3.17	-	-1.08
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.35	5.99	-0.35	2.63	-3.21	-	-1.09
Outperformance (Gross of Fees)	-0.04	0.00	-0.04	-0.02	0.04	-	0.01
iShares ESG Screened Global Bond Index Fund (Net of Fees) (Class D)	-0.41	5.94	-0.41	2.40	-3.35	-	-1.30
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.35	5.99	-0.35	2.63	-3.21	-	-1.09
Outperformance (Net of Fees)	-0.06	-0.05	-0.06	-0.23	-0.14	-	-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. 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

#### US

The Conference Board Consumer Confidence Index increased for the month of January to 114.8 from 108 in December. The Present Situation Index surged to 161.3 from 147.2 in December. The Expectations Index improved to 83.8 coming in above 80 for the second time. The rise in consumer confidence in January was reflective of slower inflation, and anticipation of lower interest rates ahead. The shift is also likely reflective of generally favorable employment conditions as companies continue to hoard labor. The gain in consumer confidence was seen across all age groups but was most significant for consumers who identified over the age of 55. Confidence levels improved across all income brackets except for the highest earners (\$125,000+), who experienced a marginal decline. Despite persistent concerns about escalating prices, inflation expectations reached a three-year low according to January's responses. Although buying plans slightly decreased during the month, consumers consistently rated their current and future income and personal finances favorably. The perceived likelihood of a US recession over the next 12 months gradually diminished in January, aligning with an Expectations Index surpassing 80. Consumer expectations for the next six months showed a slight increase, attributed to diminishing pessimism about future business conditions, the labor market, and income prospects. Consumer expectations for the next six months showed a slight increase, attributed to diminishing pessimism about future business conditions.

The seasonally adjusted final S&P Global US Composite PMI posted at 52.3 in January, up from December's figure of 51, posting marginally above 50 for the second month in a row. Flash US Services PMI rose from 51.4 to 52.9, with Flash Manufacturing PMI rising from 47.9 to 50.3. The rise in S&P Global Flash Composite US PMI signaled the fastest rise in business activity since June 2023. Output and growth was streamlined by service providers, as manufacturing firms continued to see a decline in activity over the month. Manufactures also noted that delivery delays followed severe storms and shipping disruptions that hampered production. US companies experienced the sharpest growth in new business since June 2023, with broad-based increases in new orders. Stronger demand was domestically focused, but new export orders fell for the second consecutive month, with the quickest decline since October 2023, driven by manufacturing and a slight service sector decline.

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The December CPI print in January, the Core Consumer Price Index (CPI) exhibited a modest uptick, increasing to 0.31% month-on-month (MoM) compared to November's 0.28%. However, the year-on-year (YoY) core CPI saw a slight easing from 4.0% to 3.9%. Notably, auto prices played a role in the positive surprise, with used cars rising by 0.5% MoM and new cars up by 0.3% MoM. Despite these developments, the Federal Reserve maintains a cautious stance, as emphasized by Chair Jerome Powell, who explicitly mentioned that an immediate rate cut is improbable. Looking ahead, there is an anticipation of improved readings for core CPI, with monthly increases expected to settle in the 0.20-0.25% range in the first quarter (Q1). The precise timing of this shift remains uncertain, but there is visible progress in managing inflation. Powell's comments and the marginal easing in YoY core CPI suggest a measured approach, reflecting the central bank's commitment to carefully navigating economic conditions. This nuanced perspective encourages a watchful outlook, acknowledging both positive trends and the Fed's commitment to stability in the face of evolving economic indicators.

## Eurozone

As expected, the ECB held interest rates unchanged in their January meeting with guidance (rates at sufficient levels if maintained for long enough and QT) also stable. Subsequent dovish comments by President Lagarde that wage growth was showing signs of slowing and price pressures would ease further saw bonds rally. This narrative saw expectations for the first interest rate move to April this year despite comments prior to the meeting indicating cuts were more likely to occur around June.

Yields climbed through January after the material rally in the last quarter of 2023. The German 10-year yield increased by around 21bps with expectations for interest rate cuts in 2024 falling from 164bps to 150bps. Medium term expectations suggest an ECB rate around 2.50%, at the higher end of the perceived neutral range (a rate which neither stimulates or grows the economy), this is far above the levels markets would have perceived a few years ago. Yield buyers saw periphery bonds outperform in January, highlighted by a record 138bn of orders for the new Spanish 10yr issue and spread between Italian and German 10-year bonds tightening by 10bps.

Developed market yields followed a similar move with US and UK yields also closing the month higher. The UK underperformed relative to others with higher-than-expected inflation data placing UK assets under pressure (10-year Gilts selling-off 12bps more than German Bunds). Stronger than expected US economic data coupled with pushback from Chair Powell in the FOMC meeting pushed Treasury yields higher as the probability of the first cut in March fell below 40% from close to 90% at the beginning of the month.

The eurozone economy continues to struggle with latest GDP data showing stagnation within the bloc. Growing at 0.5% last year, this is well behind US annual growth of 3.1% with hangover of the energy crisis and lower fiscal stimulus impacting activity. Germany was the main drag on eurozone performance with GDP contracting -0.5% in 2023, as lower investment in construction, machinery and equipment impacted the economy. Despite lower commodity prices and financial conditions easing, sentiment in Germany remains poor with the most prominent leading indicator (ifo) dropping to the lowest level since 2020.

Inflation in the eurozone rose to 2.9% in December, reversing 6 months of consecutive falls but was slightly smaller than the 3% predicted by economists. The reduction of government subsidies on gas, electricity and food that began last year prompted a re-acceleration on annual inflation in much of Europe. There remains confidence this will be reversed in January with declines in food and core inflation continuing. The latter (which strips out energy and food prices) fell to 3.4% in December from 3.6% in November and whilst there are concerns events in the Red Sea could provide inflationary pressures, energy prices remain anchored at present.

## UK

The first month of 2024 proved to be one of reversal for fixed income, following the strong rally in Gilts seen at the end of 2023, while credit spreads continued to tighten. Market data from the UK once again conveyed a mixed message: GDP showed signs that the economy is rebounding, while inflation exhibited an uptick for the first time since March of the previous year. The uptick in inflation led to a drop in market pricing from an 80% chance of a quarter-point rate cut in May to less than a 50% chance. While inflation is falling materially faster than the Bank of England expected last year, sticky services and wage inflation remain concerns. Across the UK gilt yield curve, yields increased by approximately 25 basis points, marking the 10-year's most significant monthly increase since May. The next month will host the first meeting of 2024 for the BoE's Monetary Policy Committee (MPC), which is expected to keep rates on hold at 5.25%.

The start of the month saw composite PMIs continue to print higher above 50 (indicating expansion), led by the strongest services PMI since June of the previous year at 53.8, while the manufacturing PMI remains below 50 and has not shown expansion since August 2022. The economy exhibited growth as GDP month-on-month (MoM) surpassed expectations of 0.2%, growing at 0.3%, up from -0.3% the previous month. GDP year-on-year (YoY) was in line with expectations, growing at 0.2%. The unemployment rate remained at 4.2% for the fourth consecutive month, below expectations of 4.3%. Wage earnings continued to decline, now at 6.5%, but still well above the target for the BoE. Once again, inflation was the focus; headline YoY sped up for the first time in 11 months, rising to 4.0% from last month's two-year low of 3.9%. Core inflation YoY remained steady at 5.1%, beating expectations of 4.9%, while MoM for both headline and core also exceeded expectations.

## Japan

JGB yields rose mainly over 4yr zone with the curve modestly bear steepening in January, and the 10yr yield ended the month 0.115% higher at 0.73%. Yields modestly declined in the first half of the month due to the Noto earthquake, but reversed course as the board members of the BoJ indicated in its policy meeting that the achievement of its inflation target was getting more likely. No policy changes were made at the BoJ policy meeting, while the main opinions expressed a number of positive views on the exit from its negative interest rate policy and thoughts on more concrete process of it. The overall inflation ex-perishable food was +2.3% YoY in December, and remained above the central bank's 2% target for twenty-first straight month as food prices continued to be high. The unemployment rate declined marginally to 2.4% in December.

## Risk Characteristics

	Fund	Benchmark
Average Maturity (Years)	8.40	8.50
Modified Duration (Years)	6.64	6.63
Normal Yield (%)	3.63	3.58
Convexity	0.82	0.82

## Top 10 Issuers (%)

	Weight (%)
UNITED STATES TREASURY	18.8
JAPAN (GOVERNMENT OF)	11.2
UNIFORM MBS	9.0
CHINA PEOPLES REPUBLIC OF (GOVERNMENT)	5.2
FRANCE (REPUBLIC OF)	3.0
UK CONV GILT	3.0
ITALY (REPUBLIC OF)	2.9
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION 2	2.6
GERMANY (FEDERAL REPUBLIC OF)	2.2
SPAIN (KINGDOM OF)	1.7

## Top 10 Issuers held by ESG score

	ESG Score
KFW	10.0
ADOBE INC	10.0
APPLIED MATERIALS INC	10.0
ASSICURAZIONI GENERALI SPA	10.0
AVIVA PLC	10.0
BANQUE DEVELOPPT CONSEIL EUROPE 9	10.0
BUNGE LIMITED FINANCE CORPORATION	10.0
COMPAGNIE GENERALE DES ETABLISSEMENTS MICHELIN SCA	10.0
CRH FINANCE DAC	10.0
CROWN CASTLE INC	10.0

## Quality

	Fund %	Benchmark %
Aaa	11.7	12.8
Aa	45.1	45.4
A	28.4	27.5
Baa	13.6	12.7
Ba	0.0	0.0
NR	1.3	1.6

## Maturity Exposure

	Fund %	Benchmark %
< 5	42.79	43.11
5 - 10	35.48	34.56
>= 10	21.73	22.33

## Country Exposure

	Fund %	Benchmark %
US	43.40	41.27
Japan	11.40	11.72
China	6.32	6.35
Germany	4.81	4.65
France	5.69	5.52
UK	4.30	4.46
Italy	3.22	3.20
Canada	3.50	3.46
Other	17.36	19.38

## ESG Sector Score

	Fund	Benchmark
Treasuries	6.15	6.15
Government Related	6.42	6.36
Corporates	5.60	5.44
Securitized	5.50	5.47

## ESG Score Breakdown

	Fund	Benchmark
Environmental	5.41	5.28
Social	6.68	6.70
Governance	6.30	6.29

## 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 Screened Global Bond Index Fund (Class E)	
APIR	BLK2319AU
Fund Size	276 mil
Buy/Sell Spread	0.10%/0.10%
Tracking Error (3 Years p.a.)	0.14%

iShares ESG Screened Global Bond Index Fund (Class D)	
APIR	BLK4636AU
Management Fee	0.20%

## 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

<sup>^</sup> The actual inception of the Fund is 1 August 2019.

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