iSHARES ESG SCREENED GLOBAL BOND INDEX FUND

iShares by BlackRock

FUND UPDATE **29 February 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)	-0.87	1.79	-1.26	3.60	-2.91	-	-1.24
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.84	1.81	-1.19	3.65	-2.97	-	-1.25
Outperformance (Gross of Fees)	-0.03	-0.02	-0.07	-0.05	0.06	-	0.01
iShares ESG Screened Global Bond Index Fund (Net of Fees) (Class D)	-0.89	1.74	-1.30	3.39	-3.10	-	-1.47
Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index 100% AUD Hedged	-0.84	1.81	-1.19	3.65	-2.97	-	-1.25
Outperformance (Net of Fees)	-0.04	-0.07	-0.11	-0.26	-0.13	-	-0.22

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.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

Performance Summary

Market Review

US

The Conference Board Consumer Confidence Index decreased for the month of February to 106.7 from 110.9 in January. The Present Situation Index fell back to 147.2 from 154.9 in January . The Expectations Index slipped to 79.8 coming in below 80 for the first time in 2024. Consumer confidence, which had been on the rise for three months, experienced a February decline, indicating ongoing economic uncertainty, according to Dana Peterson, Chief Economist at The Conference Board. The drop affected all income groups, except those earning less than $15,000 and over $125,000. It declined for individuals under 35 and those 55 and above but showed a slight improvement for those aged 35 to 54. In February, assessments of the current situation weakened as consumers viewed business conditions, employment, and personal financial situations less favorably. Expectations for the next six months declined due to renewed pessimism about future business and labor conditions. Consumer optimism about family finances also decreased, and the perceived likelihood of a US recession in the next 12 months rose. Buying plans for autos, homes, and big-ticket items slightly decreased over six months, and fewer consumers planned vacations. The expectation of rising interest rates influenced buying plans. Despite this, optimism about stock prices persisted. 12-month inflation expectations decreased to 5.2 percent in February, reaching the lowest level since March 2020, aligning with reduced consumer price inflation and fewer complaints about food and energy prices.

The seasonally adjusted final S&P Global US Composite PMI posted at 51.4 in February, down from last month's figure 52.3, posting marginally above 50 for the second month in a row this year. Flash US Services PMI remained at a 3-month low of 51.3, with Flash Manufacturing PMI rising to 51.5. In January, there was a marginal expansion in business activity, marking the second-fastest growth since July 2023. Manufacturing saw renewed production growth, driven by increased client demand and quicker order processing. Goods producers reported the steepest rise in new orders since May 2022. Service sector growth continued for the thirteenth month but with a loss of momentum. New business in the service sector increased at the slowest rate in three months. Manufacturing's stronger demand conditions led to a return to growth in new export orders after a two-month contraction, while external demand in service sector firms remained subdued. In February, job creation was widespread, but overall employment growth slowed to a three-month low. Goods producers saw the fastest growth, while services firms hesitated due to cost concerns. In February, the S&P Global Flash US Manufacturing PMI rose to 51.5, the strongest since September 2022. Modest expansion resulted from increased output, new orders, and employment. Improved vendor performance and optimism led to increased stocks. In January, the US core CPI rose to 0.39%, keeping the YoY core CPI unchanged at 3.9%. Shelter prices drove the upside surprise, while robust core services offset declining goods. Core goods fell by -0.3% mom, with a notable decline in used car prices. Core services accelerated to 0.66% mom, and shelter inflation remained stubborn, leading to a more gradual disinflation path. The headline CPI climbed to 0.31% mom, with energy prices continuing to drag down. Food prices accelerated, potentially a one-off due to commodity price fluctuations. Overall, caution is advised against over-extrapolation from the report, but the data suggests the Federal Reserve may resist an imminent rate cut.

Eurozone

European bond yields finished February higher with resilient economic data and fears dis-inflationary forces were weakening coming to the fore. Supporting these arguments, Isabel Schnabel, one of the most hawkish members of the ECB advised the sharp fall in eurozone inflation reflected the "quick wins of deflation" as supply shocks faded. Despite rising by approximately 40bps, 10-year German Bunds outperformed their US and UK counterparts in February as weaker eurozone growth and inflation outlook provided some protection for bonds. Spreads on periphery bonds closed the month tighter helped by positive risk sentiment. Italian bonds were one of the best performers with strong demand from latest BTP Valore (sovereign retail issue) seen to diminish the need for additional funding through capital markets in 2024.

Markets reduced their forecasts for amount of interest rate cuts by the ECB in 2024 given stronger economic data. Starting the month with 105bps of cuts forecasted, the market now expects only 100bps with first cut priced for June. Eurozone inflation slowed to 2.6% in February although the figure was higher than forecasted by economists (2.5%). Core inflation, which excludes energy and food prices also fell more slowly than economists expected, from 3.3% in January to 3.1% in February. Digging further into the details, positives for the ECB included food prices rising at the slowest rate since 2021 (2.2%) and industrial goods rising at 3 year low (1.6%). However, sticky services inflation and rebound in energy costs are areas of focus for the ECB.

The labour market continues to be an area of strength with eurozone unemployment returning to a record low of 6.4% in January. Whilst wages rose more than 5% annually across the eurozone in 2023, recent trends show this decelerating with growth 4.7% in Q3 and 4.5% in Q4. Although remaining above inflation and therefore acting as a stimulant for inflation to persist, softer momentum should alleviate concerns we see a material resurgence in demand induced inflation. Growth continues to be a concern despite some suggestions of a turnaround from the latest survey of purchasing managers by S&P Global and in Citigroup's Economic Surprise Index. Bank lending to the private sector in the eurozone fell for the first time in 5 months despite interest rates falling materially throughout this period. Europe traditionally relies more heavily on bank lending than other countries and therefore growth and inflation can have a greater elasticity to changes in credit supply.

UK

The new year continues to see bond yields and equities drift higher, while credit spreads continued to tighten to levels that seem historically expensive. February started with the Bank of England (BoE) meeting where the Monetary Policy Committee (MPC) kept their bank rate on hold for the 4th consecutive time at 5.25%, as expected. It was another mixed month for economic data, inflation and wage earnings once again cooled while the UK economy entered its first technical recession since lockdown struck four years ago with back-to-back Q3 and Q4 GDP prints now negative. The end of January saw the market pricing in two 25bps rate cuts by end of June from the BoE, to end the month the market is pricing a 50% chance of just one 25 bps rate cut. BoE Governor Andrew Bailey said inflation was "moving in the right direction" while ditching previous warnings that rates could rise again, instead stating borrowing costs would be kept "under review".

The start of the month saw the MPC keep their rate on hold via a 3-way split vote, 6 for unchanged, 2 for hiking and 1 for a cut. It was the first time since 2008 that MPC members had voted for both rate cuts and hikes at the same meeting. PMI's continued to strengthen in the UK suggesting growth will return for Q1 with composite PMI reaching a nine-month high of 53.3, while construction PMI continues to trend back to 50, not seen since October, now at 48.8. Wage earnings continued to decline, now at 6.2%, above expectations of 6.0% and still well above the BoE's target. The unemployment rate fell to 3.8%, following four straight months at 4.2% since October. Headline inflation remained steady at 4.0% year-on-year (YoY) slightly below forecast of 4.1%, Core inflation remained at 5.1% YoY versus a forecast of 5.2%.

Japan

JGB yields declined in long-term and super-long-term sector over 8yr zone while they rose in short-term and mid-term sector under 8yr, with the yield curve twist flattening. 10yr yield ended the month 0.02% lower at 0.71%.U.S. treasury yields experienced upward pressure on yields as expectations of early rate cuts receded against the backdrop of strong employment and inflation data. Amidst these developments, JGB yields experienced upward pressure on yields in short-term and mid-term sector due to rising concerns on the exit from the negative interest rate policy by BoJ. The overall inflation ex-perishable food was +2.0% YoY in February, in line with the central bank's 2% target after beating the target for twenty-first straight month as food prices continued to be high. The unemployment rate declined marginally to 2.4% in February.

Risk Characteristics

	Fund	Benchmark
Average Maturity (Years)	8.43	8.53
Modified Duration (Years)	6.62	6.62
Norminal Yield (%)	3.83	3.80
Convexity	0.83	0.83

Top 10 Issuers (%)

	Weight (%)
UNITED STATES TREASURY	19.1
JAPAN (GOVERNMENT OF)	11.1
UNIFORM MBS	9.0
CHINA PEOPLES REPUBLIC OF (GOVERNMENT)	5.4
FRANCE (REPUBLIC OF)	3.1
ITALY (REPUBLIC OF)	2.9
UK CONV GILT	2.9
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION 2	2.6
GERMANY (FEDERAL REPUBLIC OF)	1.8
SPAIN (KINGDOM OF)	1.8

Top 10 Issuers held by ESG score

	ESG Score
KELLANOVA	10.0
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

Quality

	Fund %	Benchmark %
Aaa	11.3	12.8
Aa	45.2	45.1
A	28.6	27.6
Baa	13.6	12.7
Ba	0.0	0.0
NR	1.3	1.7

Maturity Exposure

	Fund %	Benchmark %
< 5	42.75	42.84
5 - 10	35.10	34.60
>= 10	22.15	22.56

Country Exposure

	Fund %	Benchmark %
US	42.63	41.14
Japan	11.36	11.64
China	6.48	6.49
Germany	4.45	4.58
France	5.86	5.48
UK	4.25	4.44
Italy	3.21	3.21
Canada	3.36	3.46
Other	18.40	19.55

ESG Sector Score

	Fund	Benchmark
Treasuries	6.13	6.15
Government Related	6.41	6.37
Corporates	5.61	5.45
Securitized	5.52	5.50

ESG Score Breakdown

	Fund	Benchmark
Environmental	5.41	5.28
Social	6.68	6.70
Governance	6.28	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	278 mil
Buy/Sell Spread	0.10%/0.10%
Tracking Error (3 Years p.a.)	0.13%

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

^ The actual inception of the Fund is 1 August 2019.

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