

iShares Core Composite Bond ETF

Rating issued on 13 Jun 2024 | Exchange Code: IAF

Investment objective

To provide investors with a total return equivalent to the Bloomberg AusBond Composite 0+ Yr Index, before fees, while minimising Tracking Error.

Manager	BlackRock Investment Management (Australia) Limited
Distributor	BlackRock Investment Management (Australia) Limited
Sector	Australian Fixed Interest \ Bonds
Investment Style	Index - Traditional
RI Classification	Traditional
Absolute Risk	Low
Relative Risk	Index
Investment Timeframe	3-4 Years
Benchmark	Bloomberg AusBond Composite Index
Min Investment Amount	-
Redemption Frequency	Daily
Income Distribution	Quarterly
Fund Size (02 May 2024)	\$2.28B
Management Cost	0.10% p.a. Incl. GST
Performance Fee	N/A
Buy / Sell Spread	N/A
Inception Date	30 Apr 2012

Fund facts

- Seeks to produce a gross return consistent with that of its benchmark
- Implements a stratified sampling approach, with a focus on cost-efficient execution
- Competitive cost structure at 0.10% p.a.

Viewpoint

The Fund, managed by BlackRock Investment Management Australia Limited (BlackRock), is a passive Exchange Traded Fund (ETF) that provides cost efficient exposure to a diversified portfolio of Australian Fixed Interest securities. Through a stratified sampling approach to portfolio construction, the Fund is designed to produce investment outcomes broadly consistent with that of the Bloomberg AusBond Composite 0+ Yr Index. Zenith believes that BlackRock is a specialist manager of index-orientated strategies, and through its systematic process and use of technology, is well positioned to meet its targeted return and Tracking Error objectives.

A publicly-listed company, BlackRock employs approximately 19,300 staff located in 38 countries around the world, with approximately \$US 10.47 trillion in funds under management (FUM) as at 31 March 2024.

Responsibility for the Fund rests with BlackRock's Sydney-based Fixed Income team, which comprises seven members, each of whom are split according to investment function (i.e. Portfolio Management, Credit Research and Risk Management). Leading the team is Craig Vardy, Head of Australian Fixed Income, and a member of BlackRock's APAC Fixed Income Group. In this role, Vardy oversees BlackRock's Indexed, Enhanced and ETF Australian Bond portfolios.

Zenith has high conviction in Vardy's investment and leadership qualities, believing his skill set is well aligned to the management of the Fund.

Furthermore, we believe he is strongly supported by the local Fixed Income team, and in particular Portfolio Manager, Dmitri Levachov who maintains responsibility for day-to-day management of the Fund.

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.

Zenith highlights the cost structure of the Fund, which on a peer relative basis is amongst the lowest in the market segment, and when considered in combination with its low Tracking Error and tight historical bid/ask spreads, positions the Fund as a highly competitive offering. In Zenith's opinion, the Fund represents a compelling entry point for those investors seeking a passive exposure to Australian Fixed Interest markets.

NOTE: Zenith ratings applied to ETFs do not take into account price volatility or direction and do not represent a buy/sell recommendation based on an ETF's valuation. Potential investors should make their own determination of the appropriateness of prevailing trading prices when utilising ETFs.



Fund analysis

Fund characteristics

Constraint	Value
Tracking Error (% p.a.)	Max: 0.05% p.a.

Investment objective and philosophy

The Fund aims to provide investors with a total return equivalent to the Bloomberg AusBond Composite 0+ Yr Index, before fees, while minimising Tracking Error.

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 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 that BlackRock applies a comprehensive approach to passive investment, effectively leveraging key business units and sophisticated risk management infrastructure. Furthermore, Zenith views this approach as 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. Given their defensive characteristics, Bonds can form a key component of an investor's portfolio, with specific allocation to the Fixed Interest asset class.

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 often 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 offers exposure to a diversified portfolio of Australian Fixed Interest securities with a broad range of maturities. Through a passive approach to portfolio management, the Fund is designed to produce risk/return outcomes that are broadly consistent with that of the Bloomberg AusBond Composite 0+ Yr Index. The existence of tight mandate and risk constraints makes the Fund suitable as a core domestic

Fixed Interest allocation for those with an investment horizon of three or more years. The Fund is likely to appeal to cost sensitive investors and those seeking a Fixed Interest product where total returns are likely to compose of income distributions.

From a portfolio perspective, the Fund may be suitable for blending with International 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 (e.g. daily) liquidity needs.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Traditional
Has Responsible Investment Policy	Yes

PRI Status	
PRI Signatory	Yes

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact



Absolute performance

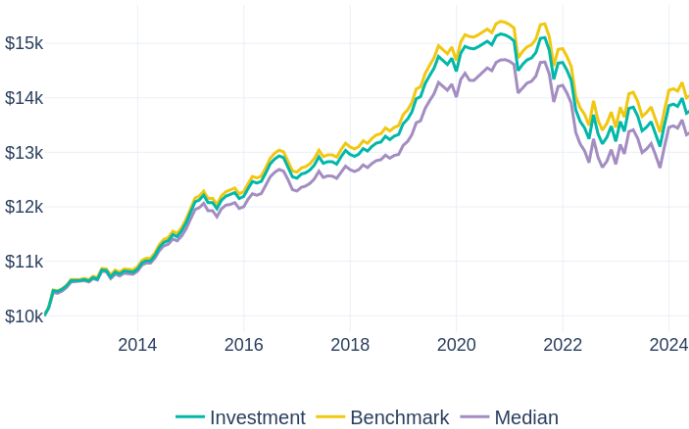
Performance as at 31 May 2024

Monthly performance history (% , net of fees)

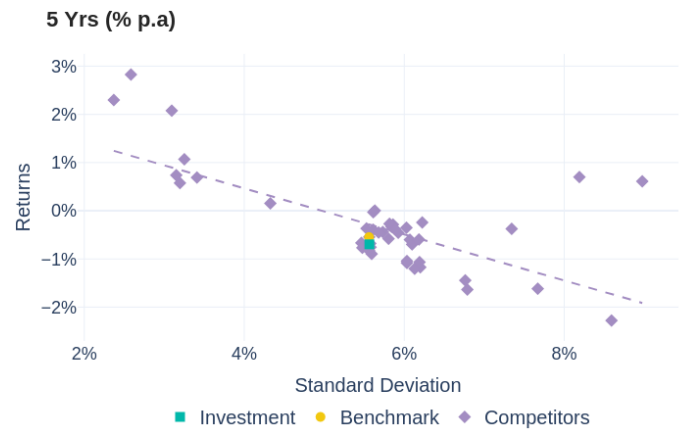
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	0.21%	-0.31%	1.09%	-1.97%	0.39%								-0.61%	-0.59%
2023	2.76%	-1.33%	3.15%	0.17%	-1.20%	-1.96%	0.51%	0.73%	-1.54%	-1.85%	2.97%	2.66%	4.96%	5.06%
2022	-1.03%	-1.23%	-3.78%	-1.52%	-0.90%	-1.49%	3.32%	-2.55%	-1.37%	0.91%	1.54%	-2.08%	-9.88%	-9.71%
2021	-0.45%	-3.61%	0.79%	0.55%	0.25%	0.68%	1.75%	0.09%	-1.53%	-3.59%	2.08%	0.08%	-3.06%	-2.88%
2020	2.31%	0.84%	-0.22%	-0.09%	0.27%	0.31%	0.36%	-0.43%	1.07%	0.26%	-0.12%	-0.28%	4.33%	4.48%

*Bloomberg AusBond Composite Index

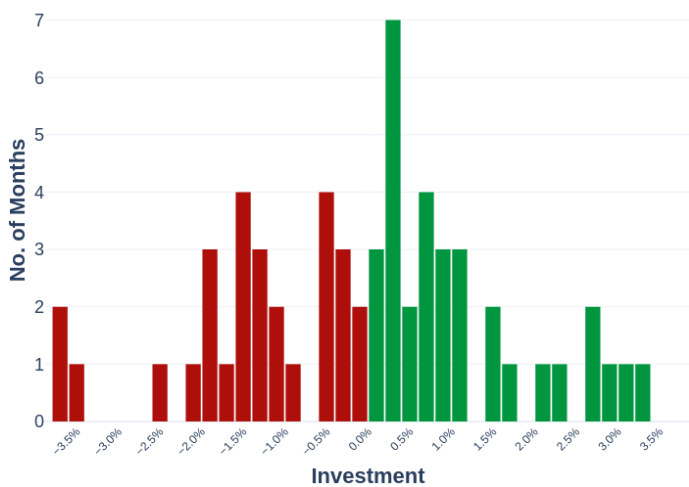
Growth of \$10,000



Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)





Absolute performance analysis

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	0.79%	-2.22%	-0.70%	2.04%	2.66%
Benchmark	0.87%	-2.09%	-0.55%	2.20%	2.84%
Median	0.91%	-2.21%	-0.63%	1.79%	2.42%
Cash	4.28%	2.31%	1.59%	1.84%	2.07%

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	28 / 45	27 / 42	29 / 40	20 / 46
Quartile	3rd	3rd	3rd	2nd

Absolute risk

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Standard Deviation (% p.a.)					
Investment	5.63%	6.42%	5.56%	4.42%	4.19%
Benchmark	5.64%	6.42%	5.56%	4.41%	4.19%
Median	5.72%	6.51%	5.63%	4.41%	4.17%
Downside Deviation (% p.a.)					
Investment	3.69%	4.72%	4.09%	3.04%	2.78%
Benchmark	3.69%	4.69%	4.06%	3.01%	2.75%
Median	3.72%	4.78%	4.14%	3.06%	2.80%

Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Sharpe Ratio (p.a.)					
Investment	-0.62	-0.71	-0.41	0.04	0.14
Benchmark	-0.60	-0.69	-0.38	0.08	0.18
Median	-0.59	-0.69	-0.39	-0.01	0.08
Sortino Ratio (p.a.)					
Investment	-0.95	-0.96	-0.56	0.06	0.21
Benchmark	-0.93	-0.94	-0.53	0.12	0.28
Median	-0.91	-0.95	-0.54	-0.02	0.12

NOTE ON PERFORMANCE - Performance data contained in this report is based on an ETF's end of day Net Asset Value (NAV) as opposed to the last market price. Zenith has elected to use NAV over last price as this eliminates extraneous trading noise which typically occurs at the end of the trading day. While we see this as a cleaner approach to assessing ETF performance, readers should be aware that actual performance of an ETF may differ depending on the timing of investment and divestment of holdings.

The following commentary is current as at 30 April 2024.

The investment objective for the Fund is to provide returns (before management costs) that closely track the returns of the Bloomberg AusBond Composite 0+ Yr Index.

The return profile of the Fund has generally reflected that of the underlying index over all periods of assessment, which Zenith notes is in line with expectations.



Relative performance

Excess returns

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Excess Return	-0.09%	-0.13%	-0.15%	-0.16%	-0.17%
Monthly Excess (All Mkts)	25.00%	16.67%	13.33%	12.50%	14.38%
Monthly Excess (Up Mkts)	14.29%	16.67%	15.62%	13.16%	15.96%
Monthly Excess (Down Mkts)	40.00%	16.67%	10.71%	11.36%	11.54%

Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Downside Capture	100.27%	100.70%	100.96%	101.29%	101.55%
Upside Capture	99.24%	99.25%	98.96%	98.65%	98.52%

Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	0.04%	0.04%	0.04%	0.04%	0.05%
Median	0.09%	0.19%	0.39%	0.32%	0.31%

Information ratio

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	-2.08	-3.13	-3.78	-3.86	-3.38
Median	0.41	-0.62	-0.22	-1.24	-1.34

Beta statistics

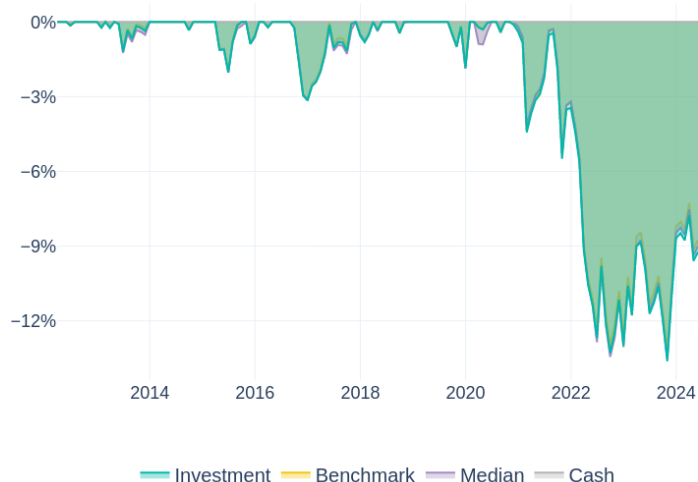
Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Beta	1.00	1.00	1.00	1.00	1.00
R-Squared	1.00	1.00	1.00	1.00	1.00
Correlation	1.00	1.00	1.00	1.00	1.00

The following commentary is current as at 30 April 2024.

The Fund has managed to achieve its objectives with tight Tracking Error, highlighting the effectiveness of BlackRock's risk management processes.

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 following commentary is current as at 30 April 2024.

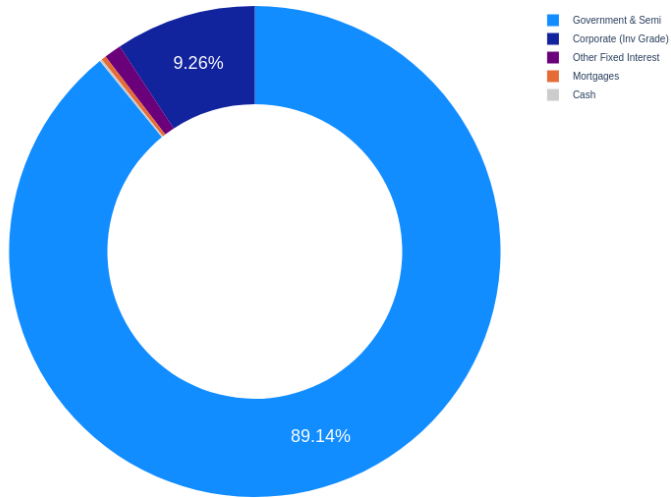
The Fund's drawdowns have been broadly consistent with that of its performance index.



Product Exposures

Holdings as at 31 Mar 2024

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.

Tracking Error risk: As an index strategy, a key risk facing the Fund is incurring excessive Tracking Error, the existence of which may see Fund performance deviate from that of its targeted benchmark.

An ETF may lag its underlying tracked index as a result of the ETF price not matching the movements in the index. This may be caused by large institutional trades which can move the ETF price away from its Net Asset Value (NAV). This risk should be broadly mitigated by the Authorised Participants, who in their capacity as market makers, will aim to remove these mismatches in prices. In addition, ETFs have a unique feature that allows large institutional orders to access the NAV of the underlying fund by an in-specie transfer, which removes the market impact for large flows.

Benchmark replication risk: Notwithstanding the Fund's investment approach, investors should be aware that the Fund does not guarantee gross returns that fully replicate those of its stated performance benchmark. By consequence, there is a risk that the Fund may underperform.

Security/asset selection

The Fund's investment universe consists of all securities eligible for inclusion in the Bloomberg AusBond Composite 0+ Yr Index. The index includes securities issued by the Commonwealth Government, the State Government Guaranteed Treasury Corporations, Semi-Government authorities, and Investment Grade Corporate issues.

Security selection is primarily driven by the index and BlackRock's quantitatively based stratified sampling process, which seeks to replicate the factor exposures of the underlying index. This is achieved by dividing the benchmark according to specific characteristics including maturity, sector, credit quality and industry.

By bucketing the benchmark in this manner, the team is then able to use proprietary software to gain a greater appreciation of each bucket's key statistics (or drivers of risk and return). BlackRock will then select a sample of individual securities that when combined, reflect the overall characteristics of each bucket. This approach seeks to consistently create the optimal balance between the portfolio's variance from the benchmark (Tracking Error) with transactional costs.

While it is feasible that BlackRock's stratified approach leads to a slight increase in Tracking Error, its use also permits the team to add value through relative value trades. While BlackRock has the capacity to add value through security selection, this is in a limited framework and if employed, is not permitted to materially change the portfolio's overall risk/return profile.

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
- Maintaining different weighted security exposures to a particular issuer in order to achieve an efficient cumulative exposure
- Crossing trading between BlackRock funds where possible

Zenith believes the combination of technology and investment team experience places BlackRock in a strong position to track the benchmark and add incrementally to portfolio outcomes.

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 the Risk and Quantitative Analysis (RQA) team. In addition, BlackRock has been a signatory to the United Nations Principles of Responsible Investment (PRI) since 2008.

At a firmwide level, BlackRock has in place a mandate requiring all divisions and teams to incorporate Environmental, Social and Governance (ESG) matters within investment and portfolio construction processes. To facilitate this, 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.

For client reporting purposes, BlackRock also produces ESG metrics with respect to active risk contribution by ESG rating and emission intensity. Zenith views favourably the disclosure of measures that seek to quantify the value add from ESG active management. Notwithstanding this, BlackRock's ESG-related processes bear less relevance when considered in relation to its suite of passive, index-tracking products.

Portfolio construction

Index construction

Bloomberg AusBond Indices are benchmarks for Australian and New Zealand investment grade debt markets. They include AUD and NZD denominated Government, Semi-Government, Local Government, Supranational, Sovereign, Corporate, Floating Rate Notes, and Inflation-Linked Securities.

These indices use a systematic process to represent the Fixed Income markets by geography, sector and maturity. Index construction seeks to strike a balance between investability and completeness when determining index membership, particularly when considering liquidity issues. Sub-indices are broken out based on maturity bands, credit ratings and sectors.



The Bloomberg AusBond Composite 0+ Yr Index is drawn from the constituents of the Bloomberg AusBond AUD Indices and is made up of bonds from Australian Government, Semi-Government, Supranational and Sovereign, and Corporate entities. The index is a market-weighted benchmark and covers the investable universe of securities with the only screen for inclusion from the parent index being a minimum outstanding face value of \$A 100 million.

Risk management

BlackRock utilises 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 is managed with a passive investment style, Tracking Error is a major consideration in portfolio construction. As such, BlackRock utilises 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.

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 that 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)	0.10% p.a.	0.35% p.a.
Management Fees and Costs	0.10% p.a.	0.34% p.a.
Transaction Costs	0.00% p.a.	0.01% p.a.
Performance fees as at 30 Jun 2023	0.00%	0.00%
Performance fees description	N/A	
Management Cost	0.10% p.a.	0.35% p.a.
Buy / Sell spread	N/A	0.05% / 0.07%

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).

ETFs contain a variety of explicit and implicit costs to the investor. Investors should be aware that poor ETF selection and/or trade execution can diminish any advantage gained by the lower management cost exhibited by ETFs in comparison to managed funds.

Management cost

Zenith considers the cost structure of the Fund to be highly attractive, noting this is the most competitive offering in the Australian Fixed Interest ETF cohort.

Bid/ask spread

As listed products, investors are exposed to bid/ask spreads as an intangible cost of investment and divestment. The bid/ask spread is primarily a function of market liquidity in fund units as well as the presence of the maximum bid/ask spreads which are maintained by authorised participants and market makers.

It should be noted that, as a safeguard in the absence of a natural market in which two investors are transacting in the Fund, market makers ensure the maximum spread is limited to a pre-agreed spread limit. However, it is important to note that bid/ask spreads tend to be at their highest and most volatile at the start and end of the trading day.

(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 will be 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 December 2023.

In a global context, BlackRock dedicates significant resources to the management of its range of index-orientated Fixed Income strategies, with passive operations 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.

Within Australia, BlackRock manages a range of active and passive products across Equities, Fixed Income, Cash, Multi-Asset strategies and Property. As at 31 March 2024, there was \$A 27.21 billion in FUM in the BlackRock Australian Fixed Income and Cash strategy, and \$A 2.36 billion in the Fund.



Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Craig Vardy	Head of Australian Fixed Income	31	31	Sydney, Australia
Pavel Pospisil	Portfolio Manager	20	20	Sydney, Australia
Michael Prljaca	Portfolio Manager	19	17	Sydney, Australia
Cameron Garlick	Portfolio Manager	33	23	Sydney, Australia
Dmitri Levachov	Portfolio Manager	15	10	Sydney, Australia

BlackRock's suite of passive Fixed Income products are managed by its Sydney-based Australian Fixed Income team. Led by Head of Australian Fixed Income, Craig Vardy, the team is responsible for a range of strategies including Cash, Index & Inflation, Enhanced Index, Core, Absolute Return and Alternative strategies. The domestic team comprises seven members, with responsibilities divided between portfolio management, credit research and risk management.

Vardy joined BlackRock in 1992 (via its predecessor firm Barclays Global Investors) and has been responsible for a range of Cash and Fixed Income portfolios. In his current position, Vardy is a member of the Asia Pacific Fixed Income Group and retains responsibility for the management of BlackRock's Indexed, Enhanced and ETF Australian Bond portfolios. Zenith has high regard for Vardy's experience and leadership qualities, believing he is strongly positioned to manage a set of passive Fixed Income strategies.

Supporting Vardy in the management of all Cash and Fixed Income portfolios are Portfolio Managers Pavel Pospisil, Michael Prljaca, Cameron Garlick and Dmitri Levachov. Under Vardy's oversight, each manager is responsible for the modelling and execution of portfolio trades as well as monitoring portfolios for rebalancing purposes. Zenith considers the portfolio managers to be highly experienced, with Levachov sharing co-portfolio management responsibility for the Fund. Vardy and Pospisil retain oversight on a day-to-day basis.

BlackRock's remuneration structure comprises a mix of base salary and discretionary bonus. The incentive component is determined by taking into consideration a mix of individual and group performance measures. Individual success is gauged through a series of qualitative measures together with an overall assessment of team contribution. Group wide components are largely determined by business measures including profitability and segment performance.

An individual's discretionary component will include both short and longer-term components. Short-term components are paid in cash and on a yearly basis. Longer-term components are paid in the form of restricted stock which vests over a three-year period. An individual's longer-term component is likely to be a greater contributor to overall remuneration as they become more senior.

Zenith believes that members of BlackRock's Australian Fixed Income team possess the requisite experience and skills necessary to effectively manage the Fund. Furthermore, given BlackRock's considerable global resourcing and systematic process, we consider key person risk to be negligible.

About the sector

Sector characteristics

The Zenith 'Australian Fixed Interest – Bonds' sector consists of all long-only funds investing in the Australian Fixed Interest market. The sector incorporates both benchmark aware and benchmark unaware strategies. Despite being a fairly competitive sector, the median active Australian Fixed Interest manager has historically struggled to outperform a passive index over the longer term. This can be attributed to the lack of opportunity to add value from active management in the Fixed Interest market, particularly in the very efficient Australian market. Managers typically add value through duration, sector positioning and security selection.

Zenith benchmarks all funds in this space against the Bloomberg AusBond Composite Index, which is reflective of the underlying benchmark used by the majority of managers in this category. The index is market-capitalisation weighted, resulting in those entities with the most issuance receiving the heaviest weightings. Owing to the lack of longer-dated securities, the index has a relatively short duration of approximately 5.9 years (as at 31 March 2023).

The Australian Fixed Interest market, as represented by the Bloomberg AusBond Composite Index, consists of over 700 investment-grade securities (BBB or higher rated) issued by the Commonwealth Government of Australia, State Government authorities and treasury corporations (Semi-Government), Corporations and Asset-Backed Securities. Owing to the increased issuance by government in recent years, the market is dominated by Government and Semi-Government securities, which account for approximately 91% of the market. Furthermore, given the high credit rating afforded to the Commonwealth Government, the market is also dominated by AAA rated securities (approximately 70%).

Sector risks

Funds within the 'Australian Fixed Interest – Bonds' 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 security). 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.

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.

Administration and operations

Responsible Entity	BlackRock Investment Management (Australia) Limited
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Zenith rating

Report certification

Date of issue: 13 Jun 2024

Role	Analyst	Title
Analyst	Darryl Ding	Investment Analyst
Sector Lead	Andrew Yap	Head of Multi Asset & Austrn. Fixed Income
Authoriser	Bronwen Moncrieff	Head of Research

Association & relationship

ASIC Regulatory Guide RG79.164 requires Research Houses to disclose certain associations or relationships that they may have with a product issuer. We may receive remuneration from an issuer or investment manager for subscription to our other research/ data services or the research/ data services of our related entities. Conflict management arrangements are in place where we or our related entities provide research services to the product issuer or financial advisory businesses who provide financial planning services to investors and are also associated entities of product issuers. This is in accordance with the Zenith Group's Conflict of Interests Policy. Further details in relation to our relationships and associations are available on request.

Rating history

As At	Rating
13 Jun 2024	Index Recommended
06 Jun 2023	Index Recommended
31 May 2022	Index Recommended

As At	Rating
27 Oct 2020	Recommended
17 Oct 2019	Recommended

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

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.



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