



Product Review

iShares 20+ Year U.S. Treasury Bond (AUD Hedged) ETF

ISSUE DATE 16-09-2024

Key information

FUND MANAGER	BLACKROCK INVESTMENT MANAGEMENT (AUSTRALIA) LIMITED
ASSET CLASS	FIXED INTEREST
SECTOR	GLOBAL BONDS
SUB SECTOR	GOVT - PASSIVE
INVESTMENT TYPE	EXCHANGE TRADED FUND ('ETF') LISTED ON THE AUSTRALIAN SECURITIES EXCHANGE ('ASX')
PDS OBJECTIVE	THE FUND AIMS TO PROVIDE INVESTORS WITH THE PERFORMANCE OF AN INDEX, BEFORE FEES AND EXPENSES. THE INDEX IS DESIGNED TO MEASURE THE AUD HEDGED PERFORMANCE OF BONDS ISSUED BY THE U.S. TREASURY THAT HAVE A REMAINING MATURITY OF TWENTY YEARS OR MORE.
INDEX PROVIDER	ICE DATA INDICES, LLC
UNDERLYING INDEX	ICE U.S. TREASURY 20+ YEAR BOND AUD HEDGED INDEX
DERIVATIVE USE	MAY BE USED TO MANAGE RISK AND RETURN.
SECURITIES LENDING	NO - HOWEVER, THE UNDERLYING FUND MAY ENGAGE IN SECURITIES LENDING.
LISTING DATE	SEPTEMBER 2024
DISTRIBUTION FREQUENCY	SEMI-ANNUALLY
FUND SIZE	\$0.5MILLION

Fees & costs (% per annum)

MANAGEMENT FEES AND COSTS	0.2
PERFORMANCE FEE COSTS	-
NET TRANSACTION COSTS	-
ANNUAL FEES AND COSTS (PDS)	0.2

WHERE MANAGEMENT FEES & COSTS IS NULL "-" NO DATA HAS BEEN PROVIDED AND THE ANNUAL FEES & COSTS (PDS) CANNOT BE CALCULATED. REFER TO THE PDS FOR THE FEE INFORMATION.

Daily trading information

TICKER	ULTB
52 WEEK LOW	\$103.12
52 WEEK HIGH	\$104.65
LAST PRICE	\$104.38
LAST NET ASSET VALUE (NAV)	\$103.96
PREMIUM / DISCOUNT TO NAV (DAILY)	0.004%
AVERAGE DAILY TRADED VOLUME	-
AVERAGE DAILY TRADED VALUE	-

What this Rating means

The 'Recommended Index' rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

Strengths

- The ability for investors to take long-duration tilts provides diversification benefits to the growth component of investment portfolios.
- The Fund's Annual Fees and Cost ('AFC') is priced favourably against its peer group.
- The Manager is a leading global manager of passive strategies, allowing investors to enjoy the benefits of scale, experience, and resources.

Weaknesses

- The Underlying Index constituent details are the property of ICE and are not readily available to non-subscribers.
- The Fund has a limited track record given its inception in September 2024. However, the Underlying Fund has built a significant track record since listing in 2015.

Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK	●		
CAPITAL VOLATILITY		●	
SECURITY CONCENTRATION RISK			●
SECURITY LIQUIDITY RISK	●		
CREDIT RISK	●		
INTEREST RATE RISK			●

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

BIometrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE					●		

A Standard Risk Measure score of 5 equates to a Risk Label of 'Medium to High' and an estimated number of negative annual returns over any 20 year period of 3 to less than 4. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW	MODERATE	HIGH
RISK TO INCOME		●	

ANALYST: MICHAEL ELSWORTH | APPROVED BY: RUI FERNANDES

Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY	●		
ESG		●	

Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE	●		
FEES VS. ASSET CLASS	●		
FEES VS. SUB-SECTOR	●		

Fee BIometrics are a function of expected total fee as a percentage of expected total return.

What is this Fund?

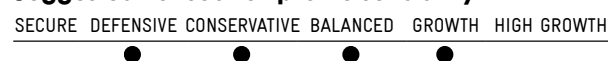
- iShares 20+ Year U.S Treasury Bond (AUD Hedged) ETF ('ULTB' or 'the Fund') seeks to track the performance of an Australian Dollar hedged portfolio composed of US Dollar denominated government bonds issued by the US Treasury.
- The Fund is passively managed by iShares by BlackRock ('the Manager') and will track the ICE US Treasury 20+ Year Bond AUD Hedged Index ('the Underlying Index'), which has been developed by ICE Data Indices, LLC ('ICE' or 'the Index Provider').
- The Fund's underlying holdings consist entirely of securities issued by the US Treasury and thus represent high-quality securities with a credit quality rating of AA and above. The Fund's portfolio has a relatively low constituent count with approximately 40 securities and therefore exhibits an elevated degree of concentration risk relative to more diversified bond funds.
- Lonsec notes the Fund is an Australian-domiciled fund that invests in the AUD-hedged share class of iShares \$ Treasury Bond 20+yr UCITS ETF ('the Underlying Fund'), an Irish-domiciled fund listed in the Netherlands. The Underlying Fund constituents are denominated in USD, however, Fund invests into a unit class that is priced and hedged to AUD.
- The Fund has not made a hedging election under the Taxation of Financial Arrangements ('TOFA') rules. BlackRock has noted that the Fund's structure (gaining indirect investment exposure through an AUD hedged UCITS share class) removes the need for operationally complex hedge accounting at the Australian product.
- Investors should note that there is high interest rate sensitivity at the 20+ year end of the yield curve, and consequently a moderate level of risk of capital volatility associated with the Fund.
- The Fund's PDS, dated 26 August 2024, disclosed Annual Fees and Costs ('AFC') totalling 0.20%. This value comprises solely of the management fee and costs. Lonsec notes this fee structure is low when considering the broader passive Australian fixed-income universe.

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- Lonsec notes that the Manager has produced a Target Market Determination ('TMD') which forms part of the Responsible Entity's Design and Distribution Obligations for the Fund. Lonsec has collected the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of the Target Market, and Review Triggers.
- The Fund is a 'long only', fixed income product and as such, will generally sit within the defensive component of a balanced portfolio.
- Fixed income funds are useful for investors seeking yields greater than cash or cash equivalents and those prepared to accept a moderate level of asset price volatility.
- Lonsec notes that this Fund represents a high-duration exposure to the US fixed-income sector. As such, this product displays significantly more interest rate sensitivity relative to more traditional US fixed-income funds.

Suggested Lonsec risk profile suitability



For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- This is Lonsec's initial review of the Fund.

Lonsec Opinion of this Fund

People and resources

- BlackRock is a global leader in ETFs with over 1,400 iShares ETFs listed globally. Further, BlackRock also had US\$7.16 trillion of FUM invested across its suite of ETF and Index strategies as at June 2024. These funds are managed and brought to market by BlackRock, one of the largest asset management firms globally. BlackRock has significant scale and resources for effectively managing and structuring ETFs both in Australia and abroad and has a proven track record of successfully running index strategies.
- Lonsec notes that the Fund invests through a fund-of-fund structure, whereby it gains exposure to the Underlying Index via an underlying Irish-domiciled iShares ETF ('iShares \$ Treasury Bond 20+yr UCITS ETF AUD Hedged'). As the Fund is an Australian-domiciled ETF, it is officially managed by the APAC EII Portfolio Engineering Team that is led by Jane Kim, Head of APAC ex Japan Index Equity Portfolio Management. However, the Underlying Netherlands-listed ETF is managed by the EMEA Fixed Income Core Portfolio Management Team.
- The EMEA Fixed Income Core Portfolio Management Team is based in the UK and is led by John Hutson. Furthermore, the Fund's portfolio is managed by Francis Rayner. These teams are further supported by the wider operational staff across BlackRock as well as in-house analysts and traders. There is also a Global Sector Specialist Team responsible for sector oversight, research, and analysis. The team continues to collaborate globally and utilise BlackRock's global presence which Lonsec believes adds to efficiency and scalability. Due to the quantitative approach

to the construction of the index/portfolio and the breadth of resources available within BlackRock globally for the management of index funds, key person risk is considered to be lower than for active style funds.

- The Manager utilises BlackRock's Risk and Quantitative Analysis ('RQA') team for ongoing risk monitoring and reporting for the Fund. RQA is a separate unit with its own reporting lines. Lonsec considers RQA to have access to sophisticated risk monitoring tools which aid in providing the Fund with an effective risk management framework. The team also regularly meets with members of the RQA, with this interaction playing more of a risk reporting than a compliance role. RQA members do not have the power to veto investment decisions for the Fund.
- These teams are further supported by the wider operational staff across BlackRock as well as in-house credit research analysts and traders. The team continues to collaborate globally and utilise BlackRock's global presence. Lonsec believes this adds to both efficiency and scalability.
- ICE, the Underlying Index provider, is a global index provider with over 6000 indices and backed by a 20+ year track record in providing fixed-income indices.

Investment approach

- Lonsec considers the Fund to be an efficient, liquid, and cost-effective means for investors to gain exposure to securities issued by US Treasuries. Lonsec believes the Fund provides the 'purest' form of US fixed income exposure, i.e. it possesses negligible amounts of credit and liquidity risk. Moreover, the screening process and methodology used to derive the Underlying Index is logical, with implementation provided by an experienced index provider in ICE.
- Lonsec notes that the Fund is a feeder fund for the Netherlands-listed Underlying Fund. Historically, Lonsec has found that the tracking error performance associated with this structure has generally been exacerbated due to time time-zone differences with the underlying holdings and the listing market of the Underlying Fund. However, Lonsec notes that BlackRock will be referencing the Underlying Fund's NAV rather than the more common closing price methodology used across the industry in Australia with the aim of reducing this risk. The valuation approach is based on the NAV price of the Fund and limits the timing difference between the underlying share class valued at the closing price and the index. Lonsec takes comfort from BlackRock confirming it followed an internal governance process to evaluate the appropriateness of this novel approach in Australia. Lonsec, however, will continue to monitor this valuation structure in future reviews to assess its effectiveness in meeting expectations.
- Lonsec notes that the Fund will be more susceptible to rate changes in a rising interest rate environment as the Fund targets longer-duration bonds. Furthermore, the inverse relationship between the bond prices and yield will be heightened for the Fund as it holds fixed-rate bonds, as opposed to floating-rate securities.

- Lonsec considers BlackRock's Aladdin risk management system to be impressive and notes that it allows stress testing for funds to be conducted in addition to the daily monitoring of the standard risk metrics for the Fund.

ESG Integration

- Lonsec's ESG integration assessment considers the rigour and structure of the ESG process for the Fund and how well it integrates into the investment process and the Manager's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings of the Fund's portfolio or the Manager's adherence to any form of impact, green/sustainable, or ethical standards.
- ESG integration for index tracking portfolios is largely limited to stewardship and engagement activities unless ESG considerations are clearly incorporated within the index. As such, for non-ESG driven indices, the ESG score provided by Lonsec is primarily an assessment of the overall ESG adoption, commitment, and policy framework implemented at the Manager level. Further, Lonsec notes that simple sector exclusions do not constitute the incorporation of ESG.
- At the corporate level Lonsec views the Manager's overall ESG policy framework and disclosure as ahead of peers. The Manager has an articulated commitment to the integration of ESG within their investment process with clear public positioning and evidence of a strong policy framework. The updated ESG policy and stewardship principles are freely available on the firm's website. The proxy voting policy and reporting on voting outcomes is stronger than peers with particular credit paid to the disclosure of voting rationale for controversial votes. The level of disclosure with respect to the Manager's engagement policies and outcomes is considered ahead of peers, particularly the firm's stewardship policies. Reporting on engagement outcomes is publicly available and the Manager is transparent about the engagement priorities, which focus on disclosure and climate change related issues.
- The Underlying Index used for this Fund has no basic filters applied and there is no integration of ESG factors in its construction.

Overall

- Lonsec has initiated the Fund's rating with '**Recommended**'. Lonsec views the Fund as an efficient vehicle for investors to gain broad exposure to long-duration bonds in the U.S fixed income market. Moreover, the Fund is the cheapest among its competitive peers and the Manager's use of referencing the Underlying Fund's NAV rather than the closing price is innovative and designed to overcome the elevated tracking error commonly seen in fund-of-fund investment structures.
- Lonsec notes that some transparency is lost due to the fund-of-fund structure and 'stratified sampling' methodology used for constructing the portfolio. Furthermore, the Fund is still developing track record of closely replicating the returns of its Underlying Index given its inception date of September 2024.

iShares 20+ Year U.S. Treasury Bond (AUD Hedged) ETF

People and Resources

BlackRock, Inc. is a global asset management business and provider of global investment management, risk management and advisory services to institutional and retail clients around the world. As at June 2024, BlackRock Inc. managed approximately US\$10.65 trillion with products that span active, enhanced and index strategies across various markets and asset classes. BlackRock, Inc. is publicly listed on the New York Stock Exchange (NYSE) and the company has a majority of independent directors. BlackRock Investment Management (Australia) Limited ('BlackRock') is a wholly-owned subsidiary of BlackRock Inc. BlackRock is the Investment Manager and Responsible Entity of the Fund. BlackRock Australia managed approximately A\$246 billion as at June 2024.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
JOHN HUTSON	HEAD OF EMEA SYSTEMATIC AND INDEX FIXED INCOME CORE PORTFOLIO MANAGEMENT	23 / 12
FRANCIS RAYNER	PORTFOLIO MANAGER	22 / 16
JANE KIM	HEAD OF ASIA PACIFIC EX JAPAN PORTFOLIO ENGINEERING	16 / 8

The APAC EII Portfolio Engineering Team which is led by Jane Kim, Head of Asia Pacific ex Japan Portfolio Engineering has formal responsibility for the Fund. The investment team responsible for managing the Underlying Fund is the London-based, EMEA Fixed Income Core Portfolio Management Team, which is managed by Francis Rayner. However, the portfolio management resources are structured along asset class lines, rather than a more traditional active/passive demarcation, meaning several more portfolio managers are abreast of the portfolio characteristics.

Investment Approach

Overview

The Manager employs a passive investment strategy designed to closely track the performance of the Underlying Index, before fees and expenses. The Manager has noted that the Fund will generally adopt a 'stratified sampling' strategy to achieve the risk/return characteristics of the Underlying Index, whereby the Fund will try to invest in a selection of securities in the Underlying Index.

Additionally, currency hedging is conducted at the Underlying Fund level.

Underlying index

The Underlying Index is market value-weighted and designed to measure the performance of U.S. dollar-denominated, fixed rate securities with minimum term to maturity greater than twenty years, hedged to Australian dollars.

The Index includes bonds that:

- Issued by the U.S. Treasury;

- Minimum par amount outstanding of U.S.\$300 million excluding amounts held by the Federal Reserve System (the "Fed") Open Market Account or bought at issuance by the Fed;
- Minimum term to maturity greater than twenty years at the rebalancing date;
- Fixed-rate coupon;
- Denominated in USD.

The Index rebalances monthly, at the end of each month and may undergo periodic unscheduled rebalances at other times.

INDEX METRIC	DATA
UNDERLYING INDEX	ICE US TREASURY 20+ YEAR BOND AUD HEDGED INDEX
INDEX PROVIDER	ICE
NUMBER OF HOLDINGS	40
AVERAGE MODIFIED DURATION	16.5 YEARS
UNHEDGED YIELD TO MATURITY	4.42%

Transparency

Fixed income indices typically tend to be less transparent or accessible to end-investors compared to equity market indices. The Underlying Index constituents are the property of ICE and are not publicly available without a subscription. However, the Manager makes information relating to performance and current holdings for all their ETFs available on their website on a daily basis.

Liquidity

As at September 2024, the Fund was listed with \$0.5m of initial seed money. This is very low compared to its peer group however Lonsec expects the FUM to grow over the medium term. Lonsec will continue to monitor how demand for the Fund impacts its liquidity and bid / ask spreads.

The Fund offers investors liquidity via the ASX which is supported by dedicated market makers that are obligated to provide continuous liquidity to the market by maintaining pre-agreed spreads and volumes on the ASX.

The Fund's underlying holdings are income-generating treasury securities issued by the US Treasury and are amongst the most liquid securities globally.

Fees and Indirect Costs

The Fund's AFC of 0.20% p.a. is very competitive in comparison to its peer group and is the only Fund offering this strategy.

The Fund is newly launched and bid/ask spread cannot yet be readily estimated. The bid/ask spread for an ETF represents the average daily spread over a one-year period but may not reflect the actual spread incurred.

Fee comparison

FUND NAME	AFC (% P.A.)	AVERAGE BID/ASK SPREAD (% P.A.)
ISHARES 15+ YEAR AUSTRALIAN GOVERNMENT BOND ETF	0.15	N/A^
BETASHARES GLOBAL GOVERNMENT BOND 20+ YEAR ETF - CURRENCY HEDGED (GGOV)	0.23	0.15

Source: ASX daily average bid / ask spread over 12 months to August 2024

^Fund has less than 12 month's track record.

Performance

The Fund commenced in September 2024 and is still establishing a track record. Lonsec prefers to observe a Fund's performance over an investment cycle before drawing any meaningful observations on fund performance.

Risks

An investment in the Fund carries a number of standard investment risks associated with domestic investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the relevant PDS and should be read in full and understood by investors. Lonsec considers the major risks to be:

Tracking error risk

The Manager seeks to minimise the tracking error against the index the Fund aims to track. There is no guarantee that this objective will be met. Additionally, the use of a fund-of-fund structure has the potential to result in higher observed tracking error relative to holding investments directly. BlackRock has sought to minimise the potential for higher tracking error associated with the fund-of-fund structure by referencing the Underlying Fund's NAV rather than its closing price in the Australian fund's valuation process.

Performance risk

The value of, and returns (if any) from an investment in the Fund will depend upon the performance of the index. There is no guarantee the value of an investment in the Fund will increase.

Interest rate risk

The movement in interest rates and bond yields directly impacts the net asset value of the Fund. Market prices of fixed-rate securities are typically inversely related to the movement of interest rates or bond yields. Duration is a measure of the interest rate risk in a fund.

Credit risk

Investing in sovereign debt securities carries credit risk, albeit typically lower than corporate credit risk. Credit risk refers to the capacity or willingness of a borrower to repay its obligations as they fall due. Higher credit risk generally infers a greater risk of capital loss.

Market-making risk

The Fund takes on counterparty risk with regard to its market-making activities. Counterparties may default on their contractual obligations, potentially exposing investors to some financial losses.

Currency risk

The Fund invests through an AUD hedged vehicle. The Underlying Fund predominantly invests in assets that are denominated in non-A\$ currencies. A rise in the relative value of the AUD vis-à-vis the currencies in which the assets are denominated will negatively impact the market value of the assets (and vice versa) from an Australian investor's perspective. The Underlying Fund is managed on a 'currency hedged' basis to reduce the impact of currency movements. While the Fund is managed on a fully hedged basis to reduce the impact of currency movements on overall performance, market movements and cash flows may move the Fund away from a fully hedged position.

Further information

Further information can be obtained by calling BlackRock on 1300 474 273 or visiting: www.blackrock.com/au

Glossary

[Click here for the glossary of terms.](#)

About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

Analyst Disclosure and Certification

Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the Analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the matters and financial product(s) to which this document refers.

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