

BLACKROCK DIVERSIFIED ESG GROWTH FUND

BLACKROCK®

FUND UPDATE

31 January 2022

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Wholesale Diversified ESG Growth Fund (Gross of Fees) ¹	-3.50	-0.83	-3.50	9.36	9.72	8.94	8.29
Benchmark*	-2.83	0.24	-2.83	11.07	9.85	8.63	7.27
Outperformance (Gross of Fees)	-0.67	-1.07	-0.67	-1.71	-0.12	0.31	1.02
BlackRock Diversified ESG Growth Fund (Net of Fees) ²	-3.57	-1.02	-3.57	8.52	8.92	8.14	7.60
Benchmark*	-2.83	0.24	-2.83	11.07	9.85	8.63	7.51
Outperformance (Net of Fees)	-0.73	-1.27	-0.73	-2.55	-0.93	-0.49	0.09

¹ Fund inception: 31/10/1997. ² Fund inception: 31/12/1996.

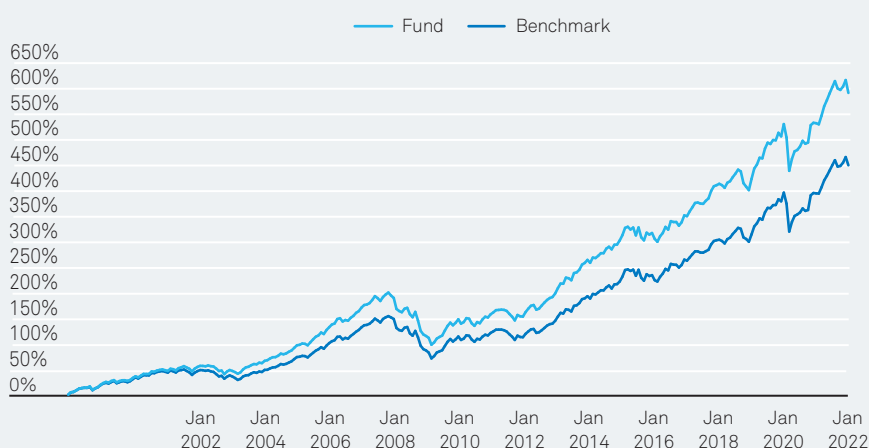
Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised.

* The benchmark is a diversified allocation of the S&P/ASX 300 Accum. Index, MSCI World Index ex-Aus Net TR (hedged and unhedged in AUD), MSCI EM IMI ex Tobacco ex Controv. & Nuclear Weapons Net TR Index (unhedged in AUD), FTSE Developed Core Infrastructure Net TR Index (unhedged in AUD), FTSE EPRA/NAREIT Developed Dividend+ Net TR Index (unhedged in AUD), Gold Price Index (unhedged in AUD), Bloomberg Barclays MSCI Australia 100mn ESG Index, BBG AusBond Infl Govt 0+ Yr IndexSM, BBG Barclays US Govt Inflation-Linked Index (hedged in AUD), JPMorgan EMBIG Div Core Index (hedged in AUD), BBG Barclays Global High Yield Corporate Index (hedged in AUD) and Bloomberg AusBond Bank Bill IndexSM.

Please note that effective from 30 November 2020 the index weights representing the performance benchmark for the BlackRock Diversified ESG Growth Fund have changed slightly to reflect the latest changes to the Fund's strategic asset allocation (i.e. the composite benchmark). This is reflected in the historical benchmark performance, with returns prior to 30 November 2020 reflecting those of the old benchmark weights while returns after this date reflect those of the updated benchmark weights.

Performance is calculated in Australian dollars and assumes reinvestment of distributions. Gross performance is calculated gross 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. Net performance is calculated on exit-to-exit price basis, e.g. net of ongoing fees and expenses.

Cumulative Performance (Gross of fees) to 31 January 2022



Performance Summary

Market Overview

January was a rough month for financial markets. Volatility spiked on the back of ongoing inflation concerns and central bank tightening, along with increasing political tensions in Europe (especially Ukraine). Markets priced in hawkish pivots by various central banks around the globe, including the US Federal Reserve (Fed) and the Reserve Bank of Australia (RBA). The ensuing higher bond yields contributed to sharp rotations across sectors and styles such as a strong rotation into value stocks and out of growth stocks (especially smaller, less profitable companies). Investors were also grappling with rallying commodity prices and turbulent inflationary readings. Nonetheless, many investors attempt to look through the noise and volatility and focus on the more positive outlook, which points to healthy corporate earnings growth and growing economies as many countries recover from the effects of the Omicron wave.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

Most global sharemarkets finished the month in the red (in local currency terms). Developed market equities and emerging market counterparts (to a lesser degree) declined as steeply valued stocks sold-off over the period. Developed market government bond indices also detracted, with strong upside pressure on bond yields as inflationary concerns triggered an end to the supportive rate environment.

United States

US equities represented through the S&P 500 Index declined 5.2% in January, though recovered from the indices worst start in history after reaching lows of -11.4% during the month. A combination of the Federal Reserve's (Fed) increased emphasis on interest rate hikes to battle inflation and escalating tensions in Eastern Europe drove market adjustment sell offs. Energy and Financial stocks held up reasonably well and were the top performing sectors in the US, while Consumer Discretionary and IT declined sharply.

A key event for investors was the Federal Open Market Committee (FOMC) meeting on January 26th where the US Federal Reserve provided an update on monetary policy and rates. The tone of the press conference was perceived as more hawkish than anticipated. A "substantial amount of balance sheet shrinkage" was outlined as a potential scenario and markets started to price in four rate hikes in 2022, with the first one likely to occur in March. Macro data releases were mixed over the period. Both the manufacturing and services Markit PMI dropped sharply as supply disruptions and labour shortages continued. Q4 2021 GDP rose 6.9% YoY, ahead of market estimates of +5.5%.

Europe

European equity markets represented through the Euro Stoxx 600 Index declined 2.8% in January, driven by ongoing concerns about inflation, upcoming rate hikes from the US Federal Reserve and uncertainty in Ukraine. Highly valued segments underperformed as a slowing macro-outlook saw declines within IT and healthcare sectors. Energy and Financials continued to perform strongly over the period.

Within the European block, January headline inflation rose to 5.1% (year-on-year), slightly above December's figure and well above the European Central Bank's (ECB) targeted rate. High energy prices driven by gas supply shortages as well as rising food and goods prices added heavily to the latest inflation reading. Whilst the ECB signalled that rates are unlikely to rise in 2022 despite record inflation, it acknowledged that the 'situation has changed' and remains flexible in its approach to future policy. January PMI readings reflected weakened conditions as the composite PMI dropped to 52.4 on the back of renewed COVID restrictions and a slowdown in services activity. However, there are signs the pandemic appears to be easing with manufacturing PMI rising to 59.0, reflecting improvements in supply bottlenecks that are expected to pick up over the year.

Concerns remain around Europe's energy supply and supply shocks as a result of Russian aggression against Ukraine. A joint EU-US statement sought to support the situation with contingency plans for gas supply disruptions, however any solutions would be purely short-term in nature.

The UK equity market as measured by the FTSE Index gained 1.1% over the month, significantly outperforming most other developed markets. Commodities and Financial stocks rallied whilst Technology detracted over the period. Corporate earnings growth showed resilience over the recent volatile period and the UK economy grew more than expected, as many macro indicators moved closer to pre-pandemic levels.

Asia

Asian equities declined in January, in line with their global peers. Chinese equities suffered the most, underperforming the broader Asian market. Weakened sentiment over the US Federal Reserve's hawkish pivot created uncertainty within the Chinese ecosystem, as debt heavy sectors such as Technology and Property detracted heavily over the month. Increased regulation in the technology space also contributed to downfalls as China aims to limit the monopolistic powers of tech giants. China maintained its zero COVID policy pending the commencement of the Winter Olympics games, though break-through cases have prompted regional snap lockdowns limiting consumer spending and retail sales growth. The latest data from China's National Bureau of Statistics reported Q4 GDP annual growth rate of +4.0%, down from +4.9% in Q3. The People's Bank of China (PoBC) reduced its benchmark lending rates to lower borrowing costs and spur business activity.

Japanese equities continued to detract in January and declined -6.2% for the month. Japan also felt the wrath of the US interest rate volatility, as technology stock prices were severely undercut. The Bank of Japan (BoJ) held policy rates unchanged during the January meeting in line with consensus.

Australia

In Australia, the S&P/ASX300 Accumulation Index declined by -6.5% in January, underperforming most other developed markets. Energy and Utilities fell the most over the month.

The Consumer Price Index (CPI) rose to 3.5% in December, driven by increased prices for new dwellings and automotive fuel. On the other hand, the Producer Price Index (PPI) rose to 3.7%, indicating some of the production costs are being consumed by businesses. The Reserve Bank of Australia (RBA) announced to maintain its cash rate at 10 basis points and continue to expand their balance sheet, though would re-assess their position in February. The RBA commented on the economy's recovery from the previous Delta outbreak leading to a strong labour market and comparative low levels of inflation to other developed nations, though will remain prepared to act once inflation is sustainably within the 2-3% target range.

Fixed Income

Fixed Income markets recorded negative performance in January as bond yields gained on the back of expected tightening from central banks. The Australian composite bond index declined almost 1% as the RBA announced its intention to cease further purchases under the bond purchase program, with the final purchases to take place in early February.

Global government bond yields also rose at a similar pace to Australia, which led to many global bond indices finishing the month in the red. Short end rates were particularly sensitive to the Federal Reserve's most recent hawkish shift, gaining 45 basis points over the period. Riskier parts of the fixed income markets, such as emerging markets debt and high yield indices declined heavily over the month as credit spreads widened.

Commodities & FX

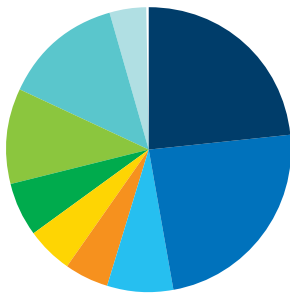
Major commodities including energy and iron ore gained in January, driven by sharp rises in prices of crude and Brent oil. The ongoing conflict in the Ukraine and tensions within the Middle East were coupled with supply shortages – pushing energy prices higher. Looking at currencies, the flight to safety in January benefited the US dollar as the USD trade-weighted index reached its highest level since mid-2020. The Australian dollar depreciated against most major currencies.

Strategy Commentary – January 2022

The BlackRock Diversified ESG Growth Fund detracted -3.57% over the month (after fees), behind its diversified benchmark which detracted -2.83%. Most asset classes underperformed in January as markets experienced substantial volatility. Growth assets, such as Australian, international and emerging equities, global REITs and listed infrastructure weighed down on returns. The portfolio's more defensive assets such as the domestic and global fixed income security allocations also detracted as fixed income securities sold off in anticipation of forthcoming rate hikes. Gold and Emerging Markets equities were somewhat of an outlier and held up well – providing some useful diversification.

Looking at active returns, the Fund underperformed its diversified benchmark over the period (after fees). Stock selection in Australian and international equities detracted and offset active returns over the period. Within international equities, positioning in the Technology sector resulted in a significant drag on performance. The Fund invests in a global macro strategy that takes overweight and underweight positions across asset classes and regions (i.e. tactical asset allocation). This sub-strategy also detracted over the quarter. Tactical overweight positions to Australian bonds (relative to other global bonds) underperformed as a spike in volatility in rate markets resulted in Australian yields repricing significantly higher over the month.

Fund Allocation



	Fund	Benchmark
Australian Shares	23.61	24.00
International Shares	23.65	24.00
Emerging Markets Shares	7.54	7.50
Global REITs (unhedged)	5.01	5.00
Global Listed Infrastructure (unhedged)	5.20	5.00
Gold	6.12	6.00
Australian Bonds	10.90	11.00
International Bonds	13.78	14.00
Cash	4.20	3.50

These benchmark weights reflect both direct and indirect investments and the effect of derivatives. While the fund is managed to this benchmark as at the date of this document, the benchmark weights may vary after the issue date of this document.

About the Fund

Investment Objective

The Fund aims to outperform its neutral portfolio benchmark before fees over rolling three-year periods. The neutral portfolio benchmark is 30% defensive and 70% growth assets.

The Fund will seek to meet its investment objective while taking into account the principles of environmental, social and governance (ESG) focused investing. This will be achieved via both ESG integration and the application of negative screens that excludes controversial sectors from the portfolio.

Fund Strategy

The investment strategy of the Fund is to provide investors with a diversified exposure to the best investment teams and ESG strategies that BlackRock has globally within the context of an Australian based globally diversified investment portfolio.

The strategy is built around two steps:

1. Establishing the most appropriate strategic benchmark subject to the growth/income splits and market risk exposures; and
2. Implement the strategic asset allocation using BlackRock's active and indexed building blocks that meet the Fund's strict ESG criteria subject to a risk budgeting framework.

Should be considered by investors who ...

- ▶ Seek a fund with an emphasis on growth assets that aims to add value through active security selection and diversified alpha strategies.
- ▶ Seek a fund that incorporates ESG factors into its investment process and screens out certain ESG sensitive sectors.

Fund Details

BlackRock Wholesale Diversified ESG Growth Fund	
APIR	BGL0003AU
Fund Size	480 mil
Buy/Sell Spread	0.16%/0.16%

BlackRock Diversified ESG Growth Fund	
APIR	BAR0813AU
Management Fee	0.79% p.a.

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