

# BLACKROCK DIVERSIFIED ESG GROWTH FUND

# BLACKROCK®

FUND UPDATE

28 February 2022

## Investment Performance (%)

|  | 1 Mth | 3 Mths | YTD   | 1 Yr  | 3 Yrs | 5 Yrs | Inc  |
|--|-------|--------|-------|-------|-------|-------|------|
| BlackRock Wholesale Diversified ESG Growth Fund (Gross of Fees) <sup>1</sup> | -1.64 | -3.34  | -5.09 | 7.94  | 7.75  | 8.14  | 8.18 |
| Benchmark*   | -1.53 | -2.40  | -4.32 | 9.47  | 7.96  | 7.93  | 7.18 |
| Outperformance (Gross of Fees)   | -0.11 | -0.94  | -0.77 | -1.53 | -0.20 | 0.21  | 1.01 |
| BlackRock Diversified ESG Growth Fund (Net of Fees) <sup>2</sup>             | -1.70 | -3.53  | -5.20 | 7.12  | 6.97  | 7.34  | 7.50 |
| Benchmark*   | -1.53 | -2.40  | -4.32 | 9.47  | 7.96  | 7.93  | 7.42 |
| Outperformance (Net of Fees)   | -0.17 | -1.12  | -0.89 | -2.36 | -0.99 | -0.59 | 0.08 |

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

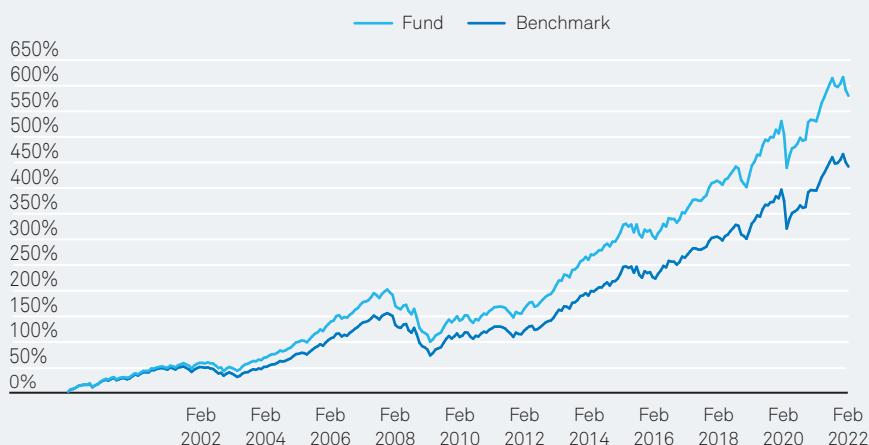
Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised.

\* 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 Index<sup>SM</sup>, 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 Index<sup>SM</sup>.

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 28 February 2022



## Performance Summary

### Market Overview

In February, investors were jolted by Russia's invasion of Ukraine. Markets which were already tested by the pandemic, rising inflation and a global wave of central bank tightening, were further injected with new uncertainty. The United States and its European counterparts imposed a broad range of sanctions on Russia, the most severe of which banning transactions with the Russian central bank in an effort to restrict Russia from deploying foreign reserves. Further restrictions were placed on major Russian financial institutions with the US also removing Russia from the Swift International Payment System. Despite positive Q4 2021 earnings reports across developed economies, ongoing inflation concerns and central bank tightening remained a primary concern early in the month before investors grappled with rallying energy and materials prices after the commencement of Russia's invasion.

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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 greater degree) declined steeply in a classic risk off move over the period. Developed market government bond indices were volatile, with initial strong upside pressure on European bond short-end yields subsiding towards month-end. Most global bond indices finished in the red with long-term yields headed higher as investors demanded more compensation for holding them amid the higher inflationary backdrop.

## US

US equities represented by the S&P500 Index declined 3% in February (in local currency terms), in line with broader market selloffs as investor's adopted a strict 'risk off' stance given the ongoing invasion of Ukraine by Russia. Despite strong fourth-quarter earnings and higher than expected earnings growth, Energy was the only sector to make gains over the period with Technology and Communications detracting sharply.

With the current geopolitical uncertainty and imposing of severe sanctions on Russia, the US Federal Reserve (Fed) along with other central banks have found it hard to navigate near-term monetary policy and interest rate hikes. However, Chair Jerome Powell reiterated expectations that a rapidly healing US economy which had printed a composite Markit PMI of 55.9 in February no longer needed an overly accommodative monetary policy. With inflation accelerating to 7.5% in January and showing no signs of abating, Powell all but confirmed a 25 basis point rate rise in March. While the magnitude remains smaller than initially priced in by markets at the start of the month, it nonetheless foreshadows the dawn of an extended hiking cycle, with markets continuing to reflect six rate hikes in 2022 amidst a tight labour market and strong wages growth.

## Europe

European equity markets represented through the Euro Stoxx 600 Index declined 5.9% in February (in local currency terms), underperforming most other developed markets. Given Europe's reliance on Russian gas, ongoing concerns about energy-driven inflation were exasperated by the conflict within Ukraine. The consumer discretionary and financial sectors underperformed as a result of reduced consumer purchasing power.

Within the European block, January's headline inflation reached 5.1% year-on-year (highest level on record), with more than 50% of the headline number coming directly from energy inflation. An acceleration of economic momentum on the back of easing COVID-19 restrictions was reflected in a rise in the Markit PMI to 55.8, driven largely by a recovering services sector. Despite the unemployment rate falling to 7% and wage growth expected to pick up, the European Central Bank (ECB) tabled discussions for a potential rate rise at its February meeting given the Ukraine crisis, suggesting a more measured approach to be taken given the ongoing uncertainty in the region.

The UK equity market as measured by the FTSE Index gained 1.4% over the month, significantly outperforming most other developed markets due to its relatively higher exposure to energy and materials sectors. The Bank of England (BOE) raised interest rates to 0.5% in February. The UK has also seen a strong growth in private sector activity with the UK Composite PMI jumping to 60.2 in February. However, the BOE has warned that surging energy bills and tighter labour markets would push inflation higher than expected in the coming months, which has already edged up to 5.5% in January.

## Asia

Asian equities declined in February, in line with their global peers. Chinese equities were relatively flat over the period, although renewed concerns about China's crackdown on private enterprises dampened investor sentiment further as the technology sector continues to be hard hit by regulatory pressures. Given China's slowdown in earnings growth, consensus holds that the People's Bank of China (PoBC) will continue to lower borrowing costs and increase credit supply to spur business activity throughout the year.

Japanese equities continued to detract in February and declined 1.7% over the month (in local currency terms). Japan's bank lending rose at 0.4% in February, the slowest increase in a decade, as immediate pressure for corporates to borrow cash eased and borrowers continued to pay back loans extended during the pandemic. The Bank of Japan (BOJ) continues to monitor developments in Ukraine given their impacts on rising crude oil prices and corporate funding within Japan.

## Australia

In Australia, the S&P/ASX300 Accumulation Index gained 2.1% in February, outperforming most other developed markets. Earning expectations were stronger than expected given recent volatility, with Energy and Utilities driving the positive returns over the month. The rotation out of 'growth' stocks was evident once more over the period, with the IT sector detracting 6.9%.

The easing of Omicron related restrictions resulted in a rise in the Markit Composite PMI to an eight-month high of 55.9 in February, driven by private sector output, demand and higher employment levels. Whilst the January unemployment rate was unchanged at 4.2%, the participation rate rose to 66.2%, a near all-time high. The Reserve Bank of Australia (RBA) announced to maintain its cash rate at 10 basis points and continue to expand their balance sheet, albeit with a more hawkish sentiment as supply-demand imbalances continue to put upward pressure on prices. Gains in house prices continued to decelerate with the latest 0.3% month-over-month rise being the lowest since late 2020.

## Fixed Income

Fixed Income markets were volatile in February as bond yields initially gained given expected tightening from central banks before declining mid-month post the invasion of Ukraine. The Australian composite bond index declined almost 1.2%, with front-end yields rising early in February on the back of the RBA step ending its Quantitative Easing Program before rate hike expectations were scaled back after Russia's escalation of conflict within Ukraine.

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 still particularly sensitive to the Federal Reserve's hawkish shift, gaining 25 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 again given geopolitical tensions.

## Commodities & FX

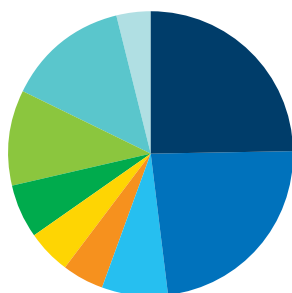
Major commodities including energy and industrial materials gained in February, driven by the invasion of Ukraine by Russia pushing prices higher. Gold prices also rose meaningfully over the period on a flight to safety alongside strong price rises for crude oil and Brent crude. Looking at currencies, the USD trade-weighted index gained slightly by 0.2% over the period. The Australian trade-weighted index appreciated by 2.2% in February.

## Strategy Commentary – February 2022

The BlackRock Diversified ESG Growth Fund declined -1.70% over the month (after fees), behind its diversified benchmark which detracted -1.53%. Most asset classes declined in February as markets experienced substantial volatility given the ongoing conflict between Russia and Ukraine. Growth assets including International equities, International Property and Emerging market equities sold off meaningfully over the period. The Fund's more defensive asset classes, including Australian Fixed Income also performed negatively over the month, but to a lesser extent. Australian equities were relatively resilient over the period and supported Fund returns. The defensive allocations to US Inflation Linked Bonds and Gold acted as useful diversifiers and contributed positively to overall performance given the higher inflationary environment and gold's safe haven status during periods of high uncertainty.

Looking at active returns, the Fund slightly underperformed its diversified benchmark over the period (after fees). Stock selection in international equities detracted and offset active returns over the period. The Fund's Real Estate and Infrastructure allocations contributed positively to active returns, benefitting from positioning within European Airports, Australian toll roads and Japan utilities. 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 detracted over the quarter. Tactical overweight positions to Australian bonds (relative to other global bonds) was a key drag on active returns, as a spike in volatility in rate markets resulted in Australian yields repricing higher over the month.

Fund Allocation



|   | Fund  | Benchmark |
|---|-------|-----------|
| Australian Shares                       | 24.77 | 24.00     |
| International Shares                    | 23.39 | 24.00     |
| Emerging Markets Shares                 | 7.40  | 7.50      |
| Global REITs (unhedged)                 | 4.89  | 5.00      |
| Global Listed Infrastructure (unhedged) | 5.03  | 5.00      |
| Gold                                    | 6.12  | 6.00      |
| Australian Bonds                        | 10.86 | 11.00     |
| International Bonds                     | 13.88 | 14.00     |
| Cash                                    | 3.66  | 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                                       | 424 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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