

# BLACKROCK DIVERSIFIED ESG GROWTH FUND

# BLACKROCK®

FUND UPDATE

31 March 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>	1.42	-3.74	-3.74	6.66	7.75	8.07	8.22
Benchmark*	0.97	-3.39	-3.39	7.88	7.79	7.78	7.19
Outperformance (Gross of Fees)	0.44	-0.36	-0.36	-1.23	-0.04	0.29	1.02
BlackRock Diversified ESG Growth Fund (Net of Fees) <sup>2</sup>	1.35	-3.92	-3.92	5.84	6.96	7.27	7.53
Benchmark*	0.97	-3.39	-3.39	7.88	7.79	7.78	7.43
Outperformance (Net of Fees)	0.38	-0.54	-0.54	-2.04	-0.83	-0.51	0.10

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

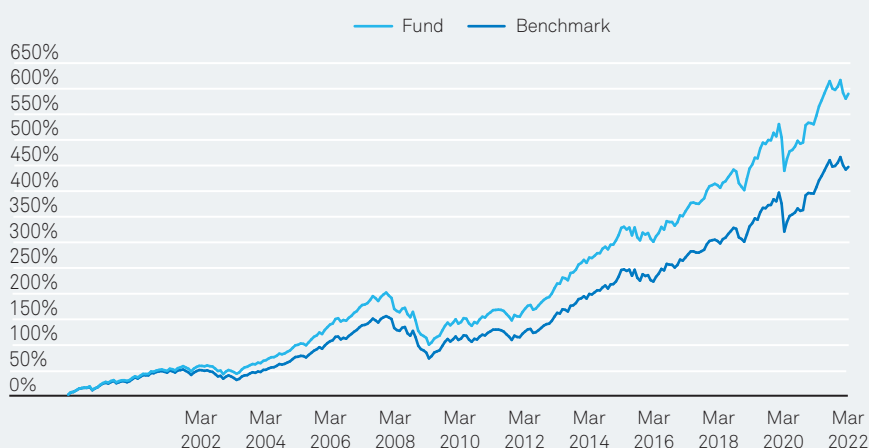
Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised.

\* 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 31 March 2022



## Performance Summary

### Market Overview

The first quarter of the year was a volatile one for financial markets. Russia's invasion of Ukraine, accelerating inflation, exacerbated global energy shock and rate hikes across global central banks added significantly to investor uncertainty over the period. Supply-driven inflation and commodity prices surged following the sanctioning of Russia, with risk assets extending their sharp rebound off the year's lows. Emerging markets were also weighed down by a new round of Omicron cases and broader geopolitical tensions. The US yield curve briefly inverted during the period, prompting recessionary concerns as central banks rhetoric turned more hawkish.

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.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

Developed market government bond indices were volatile, with strong upside pressure on both short-end and long-end yields driven respectively by expectations for faster monetary tightening and inflationary concerns. Most global bond indices experienced a volatile period and finished the quarter down as rates continued to advance amidst upward trending inflation.

### United States

In the US, the S&P 500 Index detracted -4.6% over the quarter (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. Energy was the only sector to make gains over the period with Technology and Communications detracting sharply.

On the policy front, the US Federal Reserve (Fed) raised interest rates by 0.25%, in line with market expectations, with further rate hikes expected to rapidly reduce the size of the Fed's \$9.0 trillion balance sheet. Markets have priced in a further six increases for the remainder of the year given record inflationary readings. Russia's invasion of Ukraine has placed additional strain on food and energy prices, with inflation accelerating to 7.9% in February, the highest reading since 1982. The US labour market remained resilient over the period with the unemployment rate falling to 3.8% and average hourly earnings growing by 0.5% in February. The flash services and manufacturing PMI reading in March increased to an eight-month high, with business activity more robust than expected.

### Europe

European equity markets represented through the Euro Stoxx 600 Index detracted -9.0% over the quarter (in local currency terms), underperforming most other developed markets. Concerns around Europe's heavy reliance on Russian oil and natural gas spiked risks of economic deceleration, energy-driven inflation and dampened consumer sentiment given the region's exposure to the ongoing conflict within Ukraine.

Within the European block, annual inflation grew to an all-time high of 7.5% in March, driven by high food and energy prices and a significant increase from February's 5.9% reading. Following a 12-billion-euro debt raising for its coronavirus recovery fund, the European Union discussed the possibility of issuing bonds to finance energy and defense spending to alleviate sharply rising energy costs. The European Central Bank (ECB) also confirmed the tapering of the pandemic emergency purchase program (PEPP) in June with a potential rate hike 'some time' after the conclusion of the asset purchase program (APP) in Q3. The flash services Eurozone PMI reading in March slightly fell to 54.5 yet remaining in positive territory as the region displayed strong economic resilience and robust demand recovery post rising COVID-19 cases in late 2021.

Within the UK, equity markets finished the quarter with positive gains of almost 2.9%, as measured by the FTSE Index. UK significantly outperforming most other developed markets due to its relatively higher exposure to energy and materials sectors, with strong contributions from the banking sector on the back of the Bank of England hiking rates by an additional 25 basis points in March. Inflation remains the primary concern within the region, with February's reading of 6.2% the highest in 30 years. Soaring food and energy prices prompted the announcement of a 6-billion-pound fiscal package to support household incomes and increase consumer purchasing power. UK Manufacturing PMI hit 13-month low given supply chain disruptions from the ongoing conflict in Ukraine, however, the Composite PMI remained broadly steady in March, surpassing expectations for a fall despite rising inflation prints.

### Asia

Asian equities detracted sharply over the quarter, driven by an outbreak of the Omicron variant across China and rising commodity costs. Chinese equities particularly suffered over the period with lockdowns in Shenzhen and Shanghai forcing manufacturing plant shutdowns and a fall in the Manufacturing PMI to below 50 for the first time since late 2019. Concerns about stagflation also dampened investor confidence given the supply-side shock to commodities and subsequent impacts on inflation and reduced growth. The National Congress announced a GDP target of 5.5% for the year with further stimulus expected to support small businesses and consumers.

Japanese equities detracted 2.8% over the quarter (in local currency terms), however, rebounded in March with gains in financial related value stocks. Higher energy and raw material prices exasperated supply chain concerns within the region as manufacturing activity decreased for the first time in nearly two years. The Bank of Japan (BOJ) announced the purchase of unlimited fixed-rate government bonds to constrain yields within its target range given the rise of interest rates globally.

### Australia

In Australia, the S&P/ASX 300 Accumulation Index recorded positive performance of 2.1% over the quarter. Energy, Consumer Staples, Utilities and Materials performed best, whilst growth sectors continued to detract. The Reserve Bank of Australia (RBA) continued to hold the cash rate at 10 basis points, however, noticeably shifted its tone by noting that inflation had picked up and was likely to rise further. The unemployment rate fell to a 13 year low of 4.0% with an uptake in full-time positions, however wage growth, a focus for the RBA, continues to remain weak in real terms. The lifting of Omicron related restrictions resulted in a rise in the Markit Manufacturing PMI, driven by purchasing activity, easing supply chain disruptions and higher employment levels. Gains in house prices continued to decelerate with the latest 0.3% month-over-month rise being the lowest since late 2020.

### Fixed Income

Similar to equity markets, Fixed Income markets were also characterized by increased volatility. Global bond yields continued to rise with markets pricing in a faster pace of central bank normalization given ongoing inflationary pressures. The Australian composite bond index finished the quarter down 5.9%, whilst the global composite bond index finished the quarter down 5.2%. Moves were mainly driven by the front end of the curve, which is more sensitive to higher interest rate expectations, however, geopolitical tensions continue to weigh on the long end. Riskier parts of the fixed income markets, such as emerging markets debt and high yield indices recorded negative performance, with spreads in credit markets widening and investment grade also recording losses.

### Commodities & FX

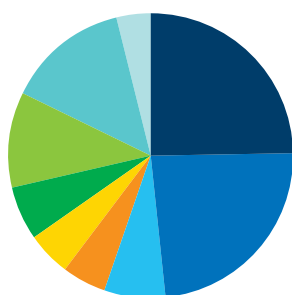
Major commodities including energy and industrial materials gained over the quarter, driven by the invasion of Ukraine by Russia pushing prices higher. Gold prices also rose meaningfully over the period on a flight to safety alongside strong price rises for crude oil and Brent crude. Looking at currencies, the USD trade-weighted index gained slightly by 1.7% in March, whilst the Australian trade-weighted index appreciated by 5.0% over the period.

## Strategy Commentary – Q1 2022

The BlackRock Diversified ESG Growth Fund declined -3.92% over the quarter (after fees), behind its diversified benchmark which detracted -3.39%. Most asset classes underperformed in Q1 as markets experienced substantial volatility on the back of ongoing conflict between Russia and Ukraine, inflationary concerns and global central bank activity. Growth assets including International Equities, International Property and Emerging Market Equities detracted over the period. The Fund's more defensive asset classes, including Australian Fixed Income, Global Fixed Income, Australian Inflation Linked Bonds, US Inflation Linked Bond and Global High Yield also detracted as fixed income markets sold off throughout the period. Australian Equities and Global Infrastructure were more resilient over the period and supported Fund returns. The allocation to Gold acted as a useful diversifier and contributed positively to overall performance given 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, as did the Fund's Global Fixed Income allocations. 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 Australian yields repriced higher over the quarter on the back of hawkish sentiment shifts by the Reserve Bank of Australia (RBA).

### Fund Allocation



	Fund	Benchmark
■ Australian Shares	24.80	24.00
■ International Shares	23.58	24.00
■ Emerging Markets Shares	7.09	7.50
■ Global REITs (unhedged)	4.96	5.00
■ Global Listed Infrastructure (unhedged)	5.08	5.00
■ Gold	5.94	6.00
■ Australian Bonds	10.85	11.00
■ International Bonds	13.88	14.00
■ Cash	3.83	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	431 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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