BLACKROCK DIVERSIFIED ESG GROWTH FUND

BLACKROCK®

FUND UPDATE **31 July 2021**

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Wholesale Diversified ESG Growth Fund (Gross of Fees)[1]	1.78	5.58	10.98	19.79	9.61	9.77	8.54
Benchmark*	1.94	5.66	10.93	20.17	9.28	9.01	7.43
Outperformance (Gross of Fees)	-0.16	-0.08	0.05	-0.38	0.32	0.76	1.11
BlackRock Diversified ESG Growth Fund (Net of Fees)[2]	1.71	5.38	10.49	18.87	8.80	8.96	7.84
Benchmark*	1.94	5.66	10.93	20.17	9.28	9.01	7.67
Outperformance (Net of Fees)	-0.22	-0.28	-0.45	-1.30	-0.48	-0.06	0.18

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

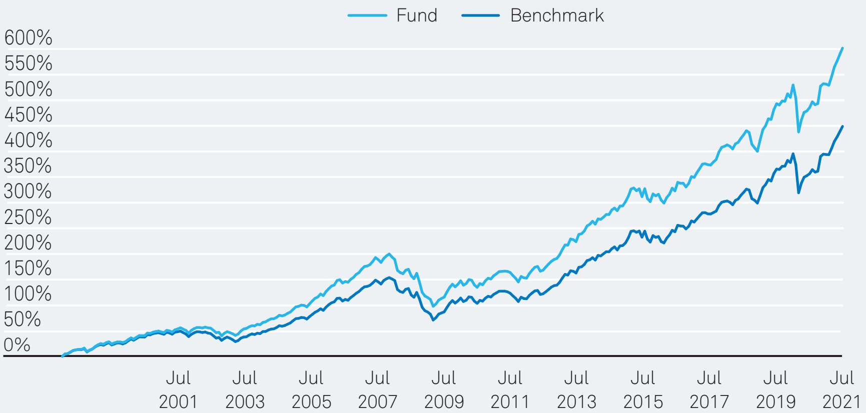
Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised.

* 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 Index℠, 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℠.

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 July 2021



Market Overview

The global economic recovery continued in July with steady progress in the COVID-19 vaccine rollout, a pick-up in mobility indicators (especially in Europe) and ongoing support from a monetary and fiscal policy perspective. However, it was a more volatile month for financial markets due to increasing concerns around rising cases of the more transmittable Delta variant and signs of a peak in economic growth, especially in the US.

Despite the volatility, developed market equities outperformed their emerging market counterparts in July. The positive performance was led by the United States (US) underpinned by a strong corporate earnings season and reassuring central bank comments. Within emerging market (EM) equities, China was a drag on markets as the government tightened regulation in a coordinated crackdown across sectors - introducing further uncertainty in the region.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

Within Fixed Income, government bonds recorded positive performance in July, led by Australia, US and Germany. The Australian dollar depreciated against most currencies and in particular the US dollar.

US

US equities gained 2.4% over the month, on the back of a positive earnings season. Earnings delivery has been strong with a record number of companies beating both sales and earnings estimates powered by encouraging corporate guidance.

The reopening of the US economy and sharp rebound in activity has led to a spike in inflation. The headline Consumer price index (CPI) surprised to the upside for the fourth consecutive month, showing inflation of +5.4% year on year in June. Federal Reserve (Fed) Chairman Powell continued to reiterate the belief that the inflation spike is transitory in nature, as supply constraints and a rebound in travel-sensitive components of CPI contributed to much of the increase. The July FOMC meeting acknowledged progress towards the Fed's goals of maximum employment and price stability, though stated that their goal of "substantial further progress" had not yet been met. This in turn supported government bonds and helped bond yields stay low in July, despite the inflation spike.

With progress on vaccinations and strong policy support, indicators of economic activity and employment have strengthened in the US. The latest jobs report showed a significant increase in the number of jobs created, led by strong gains in some of the hardest-hit sectors such as leisure and hospitality. However, the unemployment rate ticked up slightly to 5.9% as the number of job seekers increased as well.

Europe

European equities gained under 1% in July, even though companies reported strong earnings results. The spread of the Delta Covid-19 variant caused some concerns among investors, but governments have been hesitant to reimpose strict lockdown measures and are instead relying on vaccination progress to curb the increase in severe cases and fatalities.

The European Central Bank (ECB) revised its forward guidance on interest rate policy, saying the bank will maintain its ultra-loose policy until it has sufficient evidence that inflation can sustainably hit its goal of 2%. The bank raised its inflation target from "below, but close to 2%" to "2%" as July saw the ECB publish the outcome of the ECB Strategy Review, the first since 2003. The inflation target was revised slightly higher to a 'symmetric 2% inflation target over the medium term'. A reformulated and strengthened forward guidance on interest rates confirmed the ECB's very accommodative policy stance. The final June Euro area headline inflation print increased 0.3% to 1.9% year on year with core inflation at 0.9% year on year.

From an economic data perspective, GDP rebounded strongly in the second quarter and composite purchasing market indices (PMI's) posted a reading of 60.6 which was a record high (a reading above 50 represents an expansion), with Germany leading the expansion. European growth continues to be driven by the manufacturing sector while the sequential improvement in PMIs is coming from services as restrictions are being lifted. There are continued signs that firms are struggling to meet the growth in demand with backlogs rising and supplier delivery times still close to record levels.

In the UK, the FTSE 100 Index finished July roughly flat. Concerns around the Delta variant have delayed the easing of lockdown measures. However, the rapid rollout of vaccines has meant that hospitalizations have remained relatively low. On the monetary policy front, the Bank of England continued its dovish monetary policy stance through continued low interest rates. Economic data showed a mixed picture as the composite PMI for July contracted, signalling the slowest rate of private sector expansion in four months. UK's service sector and manufacturing production experienced a slowdown in recovery amid supply shortages. UK's CPI rose to 2.3% in June year on year, causing some concern amidst the monetary policy committee at the Bank of England.

Asia

Within Asian markets, attention remained on China with further evidence of a slowdown in economic activity. The regulatory crackdown in China in the second half of July added to market worries. The increased crackdown on big tech companies and private education is part of the government's efforts to mitigate social issues and lower the cost of living. Chinese activity data disappointed but spillovers have been limited so far, with macro data remaining resilient in both Europe and the US. China's State Council surprisingly implemented a cut to the Required Reserve Ratio (RRR) of 0.5%, raising concerns about Chinese economic growth. Nonetheless, Chinese Q2 2021 GDP came in slightly stronger than expected at 1.3% for the quarter.

Asian equities mostly closed lower over the month. There was a high level of dispersion across countries and sectors, partly driven by the differentiated pace of vaccination rollout and mobility restrictions implemented by governments in the area. In Emerging Asia, the Delta variant surge is stretching the medical infrastructure especially in countries such as Indonesia, Singapore, Malaysia and Thailand (where cases and mortality rates are high). Rising inflation was another concern in some Asian countries amidst rising raw material prices and production bottle necks to meet the growing global demand for goods and services.

Japanese equities declined over 5% in July. Concerns around the Delta variant caused Japan to impose new restrictions. The Japanese government imposed a fourth State of Emergency (SoE) in Tokyo, only one month after the last SoE was lifted and right before the Olympic games. The SoE covered the entire duration of the Olympics. Policy rates were kept unchanged during the July Bank of Japan (BOJ) meeting, in line with market expectations.

Australia

In Australia, the S&P/ASX300 Accumulation Index gained 1.1% over the month, despite the recent COVID outbreak. Half of Australia's population was in lockdown (as of July month-end) against a backdrop of a relatively low rate of vaccinations and the Government's low tolerance for case numbers. Mobility restrictions are expected to translate into fewer firms providing earnings guidance, put pressure on corporate margins and act as a headwind for third quarter GDP (after a better-than-expected figures in the first two quarters). CPI for Q2 came in at 0.8%, which saw CPI year on year rise to 3.8%. The Reserve Bank of Australia (RBA) kept interest rates unchanged, as expected, but shifted its tone to be slightly less dovish. The RBA announced a taper of its weekly bond purchases from $A5bn/week to $A4bn/week "until at least mid-November". The RBA also tweaked its forward guidance on the cash rate from "2024 at the earliest" to "not be met before 2024".

Fixed Income

July was marked by a widespread rally in global rates. There were several themes affecting global fixed income markets over the month such as the growing concerns over the Delta variant, the prospect of slower economic growth ahead, central bank rhetoric, alongside more technical factors (e.g. strong demand from institutional investors looking to rebalance). Inflation-linked bonds in the US and Australia continued to outperform, with the Australian inflation-linked bond index up 2.6% and US TIPS up 2.7% in July. Longer-term bond prices increased and pushed the Bloomberg Australian composite bond index 1.8% higher. The Bloomberg Global Aggregate Bond Index (hedged in AUD) also gained over 1.2% in July. In the US, bond demand has been unusually strong due to a combination of Fed purchases and institutions looking to rebalance, following a strong period of equity gains.

Credit spreads continued to tighten, and both investment Grade and High Yield indices continued to gain over the month. Local Currency Emerging market debt also performed well and experienced positive performance in July.

Commodities & Currencies

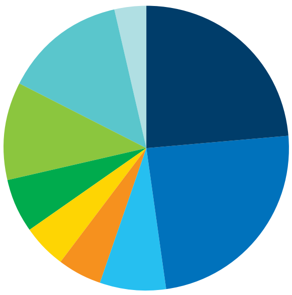
Commodities continued to perform strongly as an asset class in July. The industrial metal of copper led the way, but precious metals including gold have also been supported by a continued rise in inflation and declines in real yields that have made them more attractive as an inflation hedge. Energy prices continued to trend upward driven by strong demand amidst tight supply. Within currencies, the US dollar saw mixed performance as market participants reassessed downward the global economic recovery because of the spreading Delta variant. The Australian dollar underperformed all major currencies, particularly the US dollar.

Strategy Commentary – July 2021

The BlackRock Diversified ESG Growth Fund gained 1.71% in July (after fees). This brings the Fund's year-to-date return to +10.49% (after fees). Virtually all asset classes contributed positively to the Fund's overall return this month. Growth assets, such as Australian and international equities, global REITs and infrastructure had a particularly strong month and drove the Fund's overall return. The portfolio's more defensive assets, such as gold, inflation-linked bonds and other fixed income securities also contributed meaningfully to overall performance but to a lesser extent. Emerging market equities was the only asset class that detracted in July.

Looking at active returns, the Fund slightly underperformed its diversified benchmark in July. Security selection in global fixed income markets contributed to the underperformance, along with negative performance from the Fund's liquid alternative component. The Fund invests in a global macro strategy that takes long and short positions across asset classes and regions. This sub-strategy had a tactical underweight position to global bonds (especially in the US and Germany), which weighed on performance in July as global bonds rallied. The strategy also had a small overweight position to Japanese equities which detracted.

Fund Allocation



	Fund	Benchmark
Australian Shares	23.83	24.00
International Shares	24.16	24.00
Emerging Markets Shares	7.33	7.50
Global REITs (unhedged)	5.07	5.00
Global Listed Infrastructure (unhedged)	5.06	5.00
Gold	6.19	6.00
Australian Bonds	11.05	11.00
International Bonds	13.93	14.00
Cash	3.37	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	490 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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