

BLACKROCK DIVERSIFIED ESG GROWTH FUND

BLACKROCK®

FUND UPDATE

30 September 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	-2.02	1.42	10.59	18.24	9.17	9.77	8.46
Benchmark*	-2.25	1.45	10.40	18.77	8.72	9.01	7.35
Outperformance (Gross of Fees)	0.23	-0.03	0.19	-0.53	0.45	0.76	1.11
BlackRock Diversified ESG Growth Fund (Net of Fees) ²	-2.09	1.23	9.96	17.33	8.38	8.96	7.77
Benchmark*	-2.25	1.45	10.40	18.77	8.72	9.01	7.59
Outperformance (Net of Fees)	0.16	-0.22	-0.44	-1.43	-0.35	-0.05	0.18

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

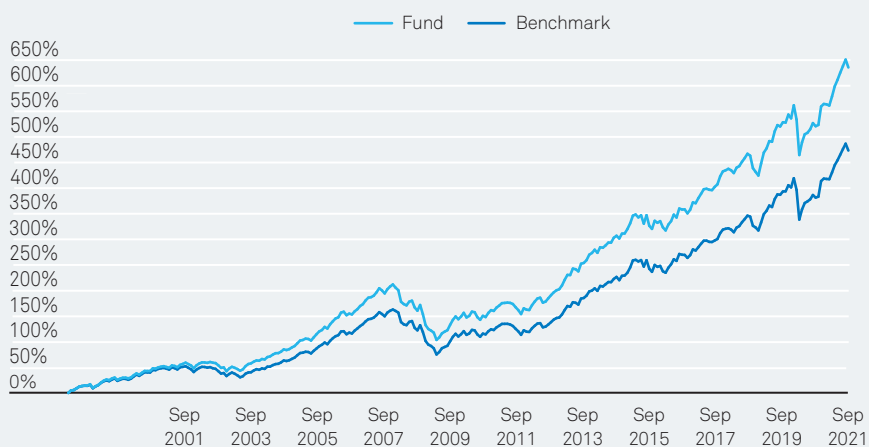
Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised.

* 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 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 30 September 2021



Market Overview

The third quarter of the year was volatile for most financial markets. Whilst it started well, some gains were erased in September when global equities and fixed income assets retreated. Risk appetite deteriorated towards quarter-end due to increasing concerns such as China's growth slowdown, the energy crisis, inflation and potential tapering by global central banks.

Developed market equities finished the quarter slightly positive after a moderate correction in September. Emerging markets were down on the quarter, weighed by China as the third quarter of the year was underscored by broadly negative news; between regulatory crackdown on select sectors to fears around a potential default on a large Chinese property developer and the contagion effect of the same.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

Global sovereign bond yields rose considerably in September on monetary policy normalization speculation, as the Federal Reserve's (Fed) further guidance on the central bank's outlook saw a hawkish direction. Several other central banks have followed suit and hiked their interest rates, including the Reserve Bank of New Zealand (RBNZ) in early October. Energy prices continued to charge ahead as supply constraints drove prices to new highs, further exacerbating inflationary pressures globally.

United States

US equities represented through the S&P 500 Index gained 0.6% over the quarter, despite September's sell-off when the S&P 500 index declined 4.7%. Higher yields, concerns around slowing economic growth and developments in China all weighed on risk sentiment over the month. In terms of sectoral moves, technology stocks underperformed whereas banks benefited from higher yields, and energy prices drove sensitive sectors higher.

On the policy front and considering fresh inflationary pressures, at the recent September Federal Open Market Committee (FOMC) meeting, the Fed struck a slightly hawkish tone when they signaled their intention to announce a tapering of asset purchases in November, with broad support for a timeline which would complete the process by mid-2022. The shift comes in the context of a revised real GDP growth to the downside whereas inflation has risen.

The August nonfarm payroll report surprised negatively, as the headline number printed well below the consensus. A significant factor for the underwhelming numbers was the decline in reopening-sensitive categories such as airline fares and hotel rates. Both retracted significantly as concerns around the Delta variant dimmed traveling prospects.

Europe

European equity markets represented through the Euro Stoxx 600 Index closed modestly flat over the quarter. The energy sector was one of the strongest performers, with information technology also seeing a robust advance.

In terms of policy, the European Central Bank (ECB) decided to reduce the pace of asset purchases under its pandemic emergency purchase program (PEPP) for the fourth quarter, as expected. The ECB upgraded its growth and inflation forecast for 2021, however in contrast to global peers, the narrative was that the rise in inflation is mostly transitory and that it would tolerate any moderate and transitory overshoot of its 2% inflation target. Preliminary data for September Euro Area inflation brought Core YoY inflation to 1.9%, in line with expectations.

Macro data was mixed over the quarter, but the positive momentum appears to be slowing. Business activity in the eurozone disappointed versus expectations, especially in September. Purchasing managers' index (PMI) readings showed a broad-based loss of momentum but remained in expansionary territory. Growth in the service sector moderated more quickly than expected in September as the reopening-driven recovery appeared to be fading. On the political front, Germany held a general election which saw the Social democrats take the largest share of votes and coalition talks are now under way over the formation of a new government.

Within the UK, equity markets finished the third quarter with positive gains of almost 2%, as measured by the FTSE index. September surprised to the upside with strong data prints showing the UK rebounding following the easing of coronavirus restrictions. The UK reported a final Q2 GDP growth of 5.5%, well ahead of market estimates. However, the Flash UK Composite PMI dropped in September, below expectations, but remained in expansionary territory. Despite job growth accelerating, wage growth has also increased. Continued supply chain disruptions and difficulty in sourcing raw materials contribute to a more challenging environment for businesses and UK business confidence gauges have eased to lows.

The Bank of England (BoE) raised the prospect of hiking interest rates to as soon as November in order to contain inflation which has surged in recent months. Spiking gas costs have exacerbated the situation and brought turmoil to the UK in September and is seen as a significant risk.

Asia

Asian equities recorded mixed performances over the quarter, partly driven by the differentiated pace of the vaccine rollout and mobility restrictions. Negative news regarding China's changing regulatory environment designed to achieve long run 'common prosperity' was another key driver of market returns in the region. China's education and technology sectors sold off sharply over the quarter and the government's unwillingness to bail out certain overleveraged companies in the property sector (e.g. Evergrande) also led to declines in the sector. Macro data pointed to a slowdown in China's economic growth. The country's zero tolerance Covid-19 approach and recent energy shortages have dampened activity. Rising fuel, raw material and transportation prices remain a concern in the region as input cost inflation reached a new high. China's local equity markets were down by 6% over the quarter.

Japanese equities recorded strong positive performance of almost 3% over the quarter. On the political front, the surprising news of Prime Minister Suga's intention to resign resulted in Fumio Kishida's election as the leader of the LDP. Global demand for Japanese exports has strengthened companies' earnings with further short-term fiscal stimulus promised by Prime Minister Kishida. After a slow take-up of the vaccine rollout, the continuation of stringent Covid-19 measures program has sustained strong momentum with most of the population having been fully vaccinated. In terms of policy, rates were unchanged during the September Bank of Japan (BoJ) meeting.

Australia

In Australia, the S&P/ASX300 Accumulation Index recorded positive performance of 1.8% over the quarter, despite a large part of the Australian population being in lockdown throughout this period. Progress on the domestic vaccine rollout and an improved outlook around the path out of lockdowns helped investor sentiment. GDP for Q2 was better than expected due to stronger consumer spending, with 0.7% rise in the quarter bringing GDP growth over the year to 1.4%. However, Q3 GDP is likely to be negatively impacted by COVID restrictions with a slowdown in retail sales alongside iron ore prices falling by as much as 40% across the quarter as a result of weaker expected demand for steel and the downturn in the Chinese property sector. House prices continued to increase, bringing house price growth to 17.6% for the year as record low interest rates and a limited supply of stock have underwritten demand.

Despite the extended lockdown and slowdown in activity, the RBA elected to reduce its weekly bond purchases from A\$5bn to \$4bn through to at least mid-February 2022. Yet, the RBA seems determined to keep the official cash rate at its current low level (close to zero) for longer, keeping monetary conditions highly accommodative in Australia.

Fixed Income

Volatility in Fixed Income markets picked up again towards the end of the quarter, as financial markets saw a broad-based rise in yields on the back of a hawkish pivot by key central banks around the globe.

Most developed market bond indices gained early in the quarter but gave back most of the positive returns in September to finish the quarter roughly flat. The Australian and global composite bond indices finished the quarter at +0.3% and +0.1%, respectively. Emerging markets debt declined over the quarter. Despite the volatility in equities and spike in interest rates, corporate spreads remained resilient, and the Global high yield index gained approximately 1% over the quarter, while Investment Grade finished flat.

Commodities & FX

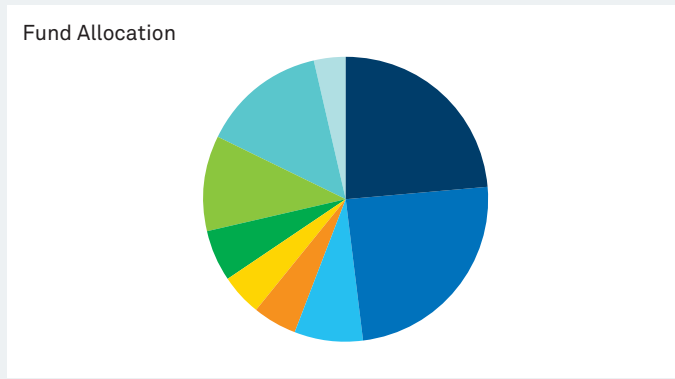
Major commodity prices including energy soared in September closing the quarter with substantial gains. Price gains were fuelled by the rebound in global growth, constrained output from producer countries and weather-related events such as the Hurricane Ida. Oil exporting countries have also been hampered by supply bottlenecks. Brent energy prices rallied given concerns around the persistent supply deficit driven by lower OECD inventories.

The volatile environment meant that the US dollar performed strongly, partly due to its perceived 'safe haven' characteristics. The Australian dollar came under pressure and depreciated over the period.

Strategy Commentary – Q3 2021

The BlackRock Diversified ESG Growth Fund gained 1.23% over the quarter (after fees), slightly behind its diversified benchmark which gained 1.45%. Most asset classes contributed positively to the Fund's overall return this quarter. Growth assets, such as Australian and international equities, global REITs and listed infrastructure had a particularly strong quarter and drove the Fund's return. The portfolio's more defensive assets, such as gold and fixed income securities also contributed positively but to a lesser extent. Emerging markets equities were somewhat of an outlier and weighed down on returns due to heightened risks posed by China's regulatory crackdown and property sector.

Looking at active returns, the Fund slightly underperformed its diversified benchmark over the period (after fees). On the positive side, security selection in Global REITs and Listed Infrastructure generated positive active returns, along with positive contribution from the Fund's liquid alternative component. On the flipside, stock selection in Australian and international equities detracted and offset active returns over the period. Within Australian equities, positioning in Communications Services detracted as underweight positions in utilities and hotels, restaurants and leisure hurt. Underweight positions in commercial services and transportation also detracted. The Fund invests in a global macro strategy that takes long and short positions across asset classes and regions. This sub-strategy was amongst the best performers over the quarter. Tactical underweight positions to global bonds (especially in the US and Germany) and a long position in Japanese equities were particularly successful.



	Fund	Benchmark
Australian Shares	23.77	24.00
International Shares	24.41	24.00
Emerging Markets Shares	7.73	7.50
Global REITs (unhedged)	4.94	5.00
Global Listed Infrastructure (unhedged)	4.94	5.00
Gold	5.79	6.00
Australian Bonds	10.86	11.00
International Bonds	13.96	14.00
Cash	3.59	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	525 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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