BLACKROCK DIVERSIFIED ESG GROWTH FUND

FUND UPDATE **31 October 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]	-0.40	-0.75	10.15	17.29	10.62	10.05	8.41
Benchmark*	0.24	-0.24	10.66	18.61	10.28	9.40	7.34
Outperformance (Gross of Fees)	-0.64	-0.51	-0.52	-1.33	0.34	0.65	1.08
BlackRock Diversified ESG Growth Fund (Net of Fees)[2]	-0.47	-0.94	9.44	16.39	9.81	9.23	7.72
Benchmark*	0.24	-0.24	10.66	18.61	10.28	9.40	7.58
Outperformance (Net of Fees)	-0.70	-0.70	-1.22	-2.23	-0.47	-0.17	0.14

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

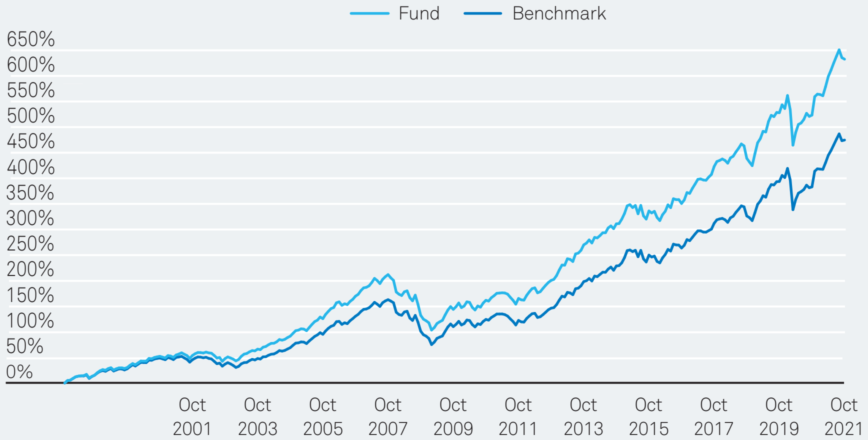
Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised.

* 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 October 2021



Performance Summary

Market Overview

October was a mixed month for financial markets. Risk sentiment stayed positive as equities rebounded from their losses in September. Commodities had another strong month with energy prices continuing to rally, stoking inflationary pressures globally. Developed market government bond yields sold off over the month on the back of continued expectations around monetary stimulus being withdrawn. Some of the most significant rate moves occurred in Australia. 2-year Australian government bond yields spiked from close to zero to 0.6%, while 10-year yields rose from 1.5% to over 2.0% in October after the Reserve Bank of Australia (RBA) abandoned its yield curve control measures and did not intervene in defending its 0.1% target for the key April 2024 bond. High yield markets recorded mildly negative returns, while investment grade markets were roughly flat over the month.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

Global equities continued to deliver strong positive returns, especially in Australian dollar hedged terms. Regionally, developed market equities continued to outperform their emerging market counterparts, led by the US. Corporate earnings results were encouraging, with several large US and European companies reporting strong profits and announcing high dividend pay-outs. Japanese equities declined slightly in October despite September's rally following a change in Japan's political environment. The Australian dollar appreciated strongly over the month (which lowered some of the unhedged international equity returns).

United States

US equities represented through the S&P 500 Index gained over 6% in October (in USD terms). Most sectors recorded positive performance, with Consumer Discretionary, Energy and Technology the top sectors in the US, helping drive the S&P 500 to a new peak. Emphasis on upbeat US earnings, robust fiscal expansion and an improved COVID environment with vaccinations and boosters created a favourable backdrop.

The Federal Open Market Committee (FOMC) meeting minutes signalled a range of views in tapering discussions. Despite previously categorising this extended phase of high inflation as 'transitory', an emergence of sticky broad-based inflation led to Federal Reserve Chair Jerome Powell announcing the taper of the central bank's $120 billion asset purchase program in November (as widely expected).

From an economic data front, data prints for September's retail sales topped expectations and the flash PMI's pointed to growing momentum. The recovery in the labour market sputtered as the September nonfarm payroll report surprised to the downside with the headline number printing well below the consensus. The weak data highlighted the difficulties filling vacant positions primarily attributable to labour shortages and the uncertainties around the Delta variant. September's inflation (CPI) report was strong, despite the weaker monthly growth seen during the summer, introducing a "stagflation" worry in markets – high inflation but potentially weak economic growth.

US GDP growth of 2.0% y/y for the third quarter was somewhat disappointing, as a combination of negative effects from Hurricane Ida and persistent supply-side constraints weighed on economic growth. While the US economy has been growing strongly for much of this year, momentum continues to be dampened by supply side bottlenecks and shortages of semiconductor chips. The rate of GDP growth has also decelerated despite consumer confidence remaining high. Prime Minister Biden's legislative push to temporarily raise the government's borrowing limit provided some relief to a stressed credit market.

Europe

European equity markets represented through the Euro Stoxx 600 Index gained over 4.7% in October (in euro terms). Emergence of strong Q3 earnings highlighted growing consumer demand, with Utilities, IT and Consumer Discretionary the top performing sectors.

Within the European block, third quarter seasonally adjusted GDP for the Eurozone showed growth of 2.2% on a quarter-on-quarter basis, a slight increase from Q2. However, significant price increases, particularly across commodities and input components, created major supply side challenges. The European Central Bank (ECB) reinforced the narrative that the upcoming period of high inflation will be largely transitory. Employment data generally improved across the Euro Area but the composite PMI hit a six-month low, as businesses struggle with supply bottlenecks and rising raw materials costs.

The UK equity market as measured by the FTSE Index gained north of 2%. Strong Q3 earnings, particularly within the financial sector was an indication of attractive valuations and dividend yields. The previously observed spike in new COVID cases reached a peak in late October, however, this is yet to translate into concerns regarding hospitalisation or deaths given the highly vaccinated population. The relaxation of COVID related restrictions in July has continued to boost business and consumer spending, with the UK's Composite PMI growing in October and remaining firmly in expansionary territory. Labour shortages and rising supply costs continue to place stress on wages with the Bank of England indicating a possible rate rise in early 2022 to help ease mounting short-term inflationary pressures.

Asia

Asian equities recorded mixed performance in October. Chinese equities gained, following several months of substantial underperformance. The Chinese property sector also slightly rebounded after large property developers made interest payments that were previously defaulted. China continues to follow a zero-case Covid policy and reimposed lockdown restrictions after the emergence of new Covid cases in October. Despite revised expectations for a slowdown in China's 2021 economic growth and global supply chain disruptions, a 27.1% rise in China's trade surplus provided welcome relief to the economy which has been negatively impacted by weakened consumer spending and electricity shortages. Real GDP growth decelerated in Q3 as inflation, particularly a large surge in food and vegetable prices, spiked as a result of heaving flooding and rising electricity prices. The slowdown in economic growth was driven by a cooling housing market, with a further deceleration in property investment and a deeper contraction in home sales.

Japanese equities reversed their gains from September and declined 1.4% in October. The conclusion of the general election at October end resulted in Prime Minister Kishida's Liberal Democratic Party (LDP) losing 15 seats yet maintaining a comfortable majority and legislative control. Prime Minister Kishida is expected to unveil a large fiscal stimulus package to further support consumer sentiment amidst Japan's transition from a state of emergency. Despite a downturn in the local stock market, Japan's Services PMI moved into expansionary territory (a score above 50) for the first time in two years with strong optimism for improved business conditions and consumer confidence. The Bank of Japan (BoJ) held policy rates unchanged during the October meeting as widely expected.

Australia

In Australia, the S&P/ASX300 Accumulation Index finished the month roughly flat and underperformed most other developed markets, despite the easing of lockdown restrictions. Industrials, Energy and Consumer Staples detracted from a broader rally in IT and Healthcare as inflationary pressures placed strains on consumer confidence.

Core inflation returned to its 2-3% target band for the first time in 6 years, two years earlier than the Reserve Bank of Australia's expectations. Higher inflation and intentions by the Reserve Bank of Australia to scrap its yield curve control (a less accommodative policy stance) could indicate forthcoming tapering and a potential rise in rates sooner rather than later. On the labour market front, wage inflation remains weak with wages growing slowly as closed borders stifle movement further. The Markit Composite PMI Index increased to a four-month high of 52.1 on the back of an improved services and private sector.

Fixed Income

Volatility in Fixed Income markets increased in October as bond yields experienced sharp moves throughout the month. The Australian composite bond index declined almost 4% as domestic bond yields surged on the back of higher-than-expected inflation and markets pricing in potential rate hikes commencing as soon as 2022.

Global government bond yields also tended to move higher in October (especially shorter-term bond yields), but nowhere near the pace of Australia. Most global government bond indices recorded mildly negative returns in October. Riskier parts of the fixed income markets, such as emerging markets debt and high yield indices finished the month either flat or slightly negative.

Commodities & FX

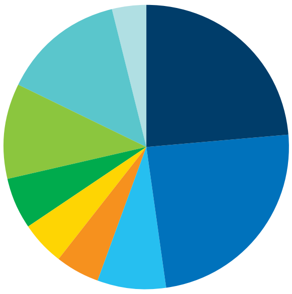
Major commodity prices including oil and copper rallied in October, as supply struggled to keep pace with the rise in demand from the resumption in activity in major economies. Brent crude was up 7.7% in October and WTI crude surged 10.9%. Similarly, other metals also recorded strong performance over the month. In terms of Gold, rising inflationary pressures increased demand for the precious metal as it reversed its previous weak performance. In currencies, the Australian dollar was one of the strongest performers over the month in part due to the demand for commodity-linked currencies.

Strategy Commentary – October 2021

The BlackRock Diversified ESG Growth Fund declined -0.47% over the month (after fees), behind its diversified benchmark which gained 0.24%. Asset classes recorded mixed performance in October. Most growth assets, including Australian equities, international equities and global REITs showed positive performance and added to total returns. On the flipside, emerging markets (EM) equities detracted. The Fund's more defensive asset classes also recorded mixed performance. US inflation-linked bonds gained in October, whilst Australian and global government bonds and gold declined. Global high yield securities and EM debt finished the month roughly flat.

Looking at active returns, the Fund underperformed its diversified benchmark over the period (after fees). On the positive side, security selection in Australian and Emerging Market equities generated positive active returns, along with positive contribution from the Fund's infrastructure component. On the flipside, selection in global and domestic fixed income securities detracted and offset active returns over the period. Within fixed income securities, positioning in short-term and long-term Australian government bonds detracted as did allocations to emerging market bonds. The Fund invests in a global macro strategy that takes long and short positions across asset classes and regions. This sub-strategy was the worst performer over the month. Tactical overweight positions to Australian bonds (relative to other global bonds) were a material underperformer as a spike in volatility in rate markets towards the end of October resulted in Australian yields repricing significantly higher over the month.

Fund Allocation



	Fund	Benchmark
Australian Shares	23.82	24.00
International Shares	24.08	24.00
Emerging Markets Shares	7.85	7.50
Global REITs (unhedged)	4.99	5.00
Global Listed Infrastructure (unhedged)	5.02	5.00
Gold	5.86	6.00
Australian Bonds	10.86	11.00
International Bonds	13.90	14.00
Cash	3.62	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	482 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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