

# BLACKROCK DIVERSIFIED ESG GROWTH FUND

# BLACKROCK®

FUND UPDATE

30 November 2021

## 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>	0.91	-1.53	11.15	11.98	11.46	9.92	8.42
Benchmark*	1.14	-0.90	11.92	12.95	10.98	9.34	7.36
Outperformance (Gross of Fees)	-0.23	-0.62	-0.77	-0.97	0.48	0.58	1.06
BlackRock Diversified ESG Growth Fund (Net of Fees) <sup>2</sup>	0.85	-1.71	10.37	11.12	10.64	9.10	7.73
Benchmark*	1.14	-0.90	11.92	12.95	10.98	9.34	7.60
Outperformance (Net of Fees)	-0.29	-0.81	-1.55	-1.83	-0.33	-0.24	0.13

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

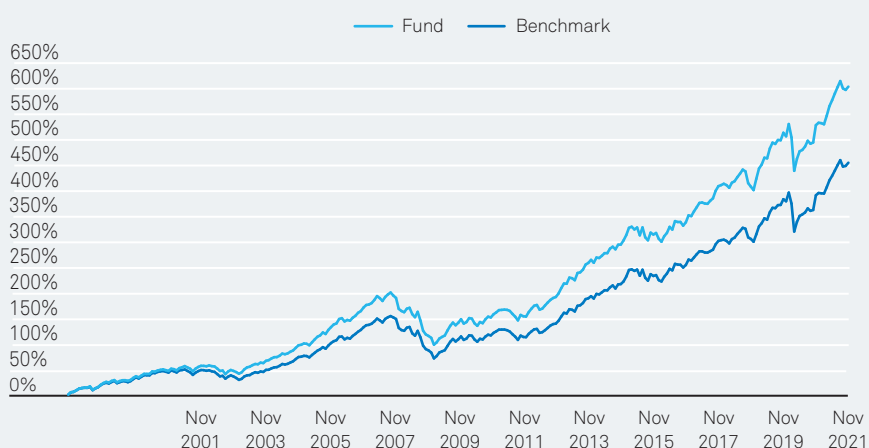
Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised.

\* 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 30 November 2021



## Performance Summary

### Market Overview

November was a volatile month for financial markets. Risk sentiment dropped with the emergence of the Omicron variant of COVID-19, which added significantly to investor uncertainty. Concerns around the rate of transmission of this new virus strain, the degree to which it evades prior immunity to other variants and whether it causes more (or less) severe disease than the Delta variant drove markets. Government responses to the new Omicron variant are unclear although some countries have already tightened mobility restrictions. November was also marked by the UN climate conference – COP26 – where global leaders discussed their climate commitments and assessed ways for coordinating efforts to combat climate change going forward.

Visit [BlackRock.com.au](https://www.blackrock.com.au) for further information, including:

- 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 declined particularly sharply towards month-end when concerns regarding the Omicron variant first emerged. High inflation in the US, Europe and parts of Asia also remained a key topic amongst investors. Developed market government bond yields reversed some of their losses from October as rates retreated after rising in previous months.

### United States

US equities represented through the S&P 500 Index declined 0.7% in November. Strong Q3 corporate profits pushed the S&P 500 to a new peak in early November, however, hawkish comments from Federal Chair Jerome Powell and the emergence of the new Omicron variant prompted sharp selloffs towards the end of the month. Technology and Consumer Discretionary were the top performing sectors in the US with Financials, Communications and Energy declining most.

The expected re-election of Jerome Powell as Federal Chair for a further four years eased some uncertainty over US monetary policy, however, rhetoric by the policy committee describing the current inflationary environment as no longer 'transitory' prompted further speculation that the taper of the central bank's \$120 billion asset purchase program could be accelerated. On the other hand, the uptick in the number of COVID-19 cases and the emergence of the Omicron variant caused some to argue that further policy accommodation is needed to keep the economic recovery on track.

From an economic data front, a fall in the flash PMI in November indicated a slowdown in the manufacturing and services sectors despite a growth in retail sales over the same period. Consumer demand continues to be unmatched by labour shortages and raw material delays, prompting a rise in October's inflation (CPI) by 0.9%, well ahead of consensus. Furthermore, a disparity between the spike in personal income and personal expenditure signalled household eagerness to spend more despite a dramatic deceleration in job creation and unemployment benefit uptake.

President Joe Biden's bipartisan US\$550 billion infrastructure bill to stimulate the domestic economy was passed by the US Senate in November. Nevertheless, much anticipation remains over the US debt ceiling, with obligations expected to arise in late December.

### Europe

European equity markets represented through the Euro Stoxx 600 Index detracted over 4.3% in November, reversing the previous month's gains. The emergence of a fourth COVID-19 wave, reintroduction of mobility constraints and persistently high inflation rates weighed on sentiment as energy and financial sectors led losses late in the month.

Within the European block, annual inflation grew to 4.9%, well above consensus and the European Central Bank's (ECB) targeted rate. High energy prices and supply chain disruptions added heavily to the latest inflation reading, although the ECB maintained its transitory stance after announcing the planned end to its emergency bond purchases program in March 2022. Employment data generally improved across the Euro area and was supported by a growth in the composite PMI for the first time in three months, with a resilient services sector buoyed by new business growth and consumer spending.

The UK equity market as measured by the FTSE Index detracted 2.2% over the month. Emergence of the Omicron variant forced the reintroduction of international and regional mobility restrictions, adversely impacting the travel and leisure sectors. Interest rate uncertainty promoted a decline in the financial sector with markets pricing in a reversal of the Bank of England's expected increase in base lending costs. Economic momentum in the UK remained strong until late November with consumer confidence and retail sales increasing at a greater rate than the Eurozone. The end of the government's furlough scheme promoted a record increase in UK payroll workers and a drop in the unemployment rate to 4.3%. Despite remaining firmly in expansionary territory, the UK's Composite PMI declined in November as concerns regarding fast-growing parts of the services sector heightened given their sensitivity to tighter pandemic restrictions.

### Asia

Asian equities also declined in November, in line with their global peers. Chinese equities detracted, however, outperformed the broader Asian market. China's exports continued to grow for three months running, outperforming expectations on the back of strong demand from Europe and global markets ahead of the holiday season. Manufacturing PMI rebounded to 50.1 points, representing a slight expansion in manufacturing activity for the first time in two months. Whilst easing power crunches have helped deliver consistent growth in supply markets, the overseas surge in demand for goods is expected to taper as subdued factory activity and high production costs are expected to weigh on manufacturers and consumers respectively. China continued to follow a zero-tolerance/low-tolerance policy after the emergence of the Omicron variant, stoking fears of a prolonged slowdown in domestic markets and an increase in transportation costs for global peers.

Japanese equities continued to detract in November and declined -3.7% for the month. Despite initially reopening the domestic economy in early November, a weakened yen and subsequent rise in import prices dampened sentiment and weighed on corporate profits and household purchasing power towards the end of the month. Newly elected Prime Minister Kishida's unveiling of a record US\$490 billion spending package represented a shift in the Liberal Democratic Party's (LDP) fiscal conservative stance and is expected to support Japan's reflationary monetary policy in delivering significant GDP gains in 2022. Despite a downturn in the local stock market, Japan's Manufacturing PMI moved into expansionary territory (a score above 50), representing the fastest pace of expansion since January 2018. However, critical supply bottlenecks remain an issue with cost pressures, materials shortages and delivery delays pushing input prices to a new peak.

### Australia

In Australia, the S&P/ASX300 Accumulation Index slightly detracted by -0.5% in November and outperformed most other developed markets. Materials, Communications and Real Estate performed best, while Energy, Financials and IT fell as inflationary pressures and rising COVID-19 cases dampened sentiment.

Expected inflation grew to 4.9% in November, the largest year-over-year increase. The Markit Composite PMI Index increased on the back of growing manufacturing and services sectors as momentum and activity was boosted by the reopening of the Australian economy. However, on the labour market front, wage inflation remains weak and labour shortages continue to remain prevalent as mandatory vaccination requirements prompted a fall in employment levels to pre-COVID-19 levels. The Reserve Bank of Australia maintained its case for no rate hikes until 2024 given the lack of broad-based surges in wage growth and a lag in home-grown inflation in comparison to other developed countries.

### Fixed Income

Fixed Income markets generally recorded positive performance in November as bond yields retreated following previous rate rises. The Australian composite bond index gained almost 2% as the October sell-off was reversed in November and investors scaled back rate hike expectations.

Global government bond yields also tended to decline in November, but nowhere near the pace of Australia. As a result, most government bond indices recorded mildly positive returns over the month. Riskier parts of the fixed income markets, such as emerging markets debt and high yield indices finished the month slightly negative, as spreads widened.

### Commodities & FX

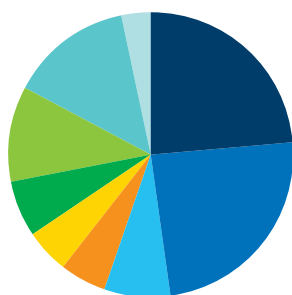
Major commodities including energy, iron ore and copper gave back returns in November and one of the largest moves came from the energy sector as oil prices dropped. WTI crude and Brent crude lost value as a result of both the Omicron narrative and also speculation that President Biden could tap into the Strategic Petroleum Reserve. Gold finished the month roughly flat. Looking at currencies, the flight to safety in November benefitted the US dollar which rose 2% over the month. The Australian dollar depreciated meaningfully against most major currencies.

## Strategy Commentary – November 2021

The BlackRock Diversified ESG Growth Fund gained 0.85% over the month (after fees), slightly behind its diversified benchmark which gained 1.14%. Asset classes recorded mixed performance in November. Most growth assets including Australian equities and international equities (hedged) detracted from total returns as markets experienced volatility towards the end of the month after the emergence of the Omicron variant. The Australian dollar depreciated meaningfully in November, which boosted returns from the unhedged international equity exposures in the portfolio. The Fund's more defensive asset classes generally recorded positive performance. US inflation-linked bonds, Australian government bonds and gold gained alongside the Fund's global infrastructure and REITs allocations. Global high yield securities detracted from performance over the month.

Looking at active returns, the Fund underperformed its diversified benchmark over the period (after fees). On the positive side, security selection in global REITs generated positive active returns. On the flipside, security selection in Australian, international and emerging market equities 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 US inflation-linked 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 largest positive alpha source over the month. Tactical overweight positions to Australian bonds (relative to other global bonds) were a material contributor as the October sell-off was reversed in November and Australian yields repriced lower over the month.

### Fund Allocation



	Fund	Benchmark
Australian Shares	23.71	24.00
International Shares	24.27	24.00
Emerging Markets Shares	7.57	7.50
Global REITs (unhedged)	5.11	5.00
Global Listed Infrastructure (unhedged)	5.09	5.00
Gold	6.32	6.00
Australian Bonds	10.83	11.00
International Bonds	13.84	14.00
Cash	3.28	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	485 mil
Buy/Sell Spread	0.16%/0.16%

BlackRock Diversified ESG Growth Fund	
APIR	BAR0813AU
Management Fee	0.79% p.a.

**IMPORTANT INFORMATION:** Issued by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975, AFSL 230 523 (**BIMAL**). This material is not a financial product recommendation or an offer or solicitation with respect to the purchase or sale of any financial product in any jurisdiction. The material provides general information only and does not take into account your individual objectives, financial situation, needs or circumstances. Before making any investment decision, you should assess whether the material is appropriate for you and obtain financial advice tailored to you having regard to your individual objectives, financial situation, needs and circumstances. BIMAL is the responsible entity and issuer of units in the Australian domiciled managed investment schemes referred to in this material. Any potential investor should consider the latest product disclosure statement, prospectus or other offer document (**Offer Documents**) before deciding whether to acquire, or continue to hold, an investment in any BlackRock fund. Offer Documents can be obtained by contacting the BIMAL Client Services Centre on 1300 366 100. In some instances Offer Documents are also available on the BIMAL website at [www.blackrock.com.au](http://www.blackrock.com.au). BIMAL, its officers, employees and agents believe that the information in this material and the sources on which it is based (which may be sourced from third parties) are correct as at the date of publication. While every care has been taken in the preparation of this material, no warranty of accuracy or reliability is given and no responsibility for the information is accepted by BIMAL, its officers, employees or agents. Any investment is subject to investment risk, including delays on the payment of withdrawal proceeds and the loss of income or the principal invested. While any forecasts, estimates and opinions in this material are made on a reasonable basis, actual future results and operations may differ materially from the forecasts, estimates and opinions set out in this material. No guarantee as to the repayment of capital or the performance of any product or rate of return referred to in this material is made by BIMAL or any entity in the BlackRock group of companies. No part of this material may be reproduced or distributed in any manner without the prior written permission of BIMAL. © 2021 BlackRock, Inc. All Rights reserved. BLACKROCK, BLACKROCK SOLUTIONS, iSHARES and the stylised i logo are registered and unregistered trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.