

BLACKROCK DIVERSIFIED ESG GROWTH FUND

BLACKROCK®

FUND UPDATE

31 December 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	1.84	2.36	13.20	13.20	12.64	9.65	8.48
Benchmark*	2.00	3.41	14.16	14.16	12.22	9.13	7.42
Outperformance (Gross of Fees)	-0.16	-1.05	-0.97	-0.97	0.42	0.52	1.05
BlackRock Diversified ESG Growth Fund (Net of Fees) ²	1.77	2.16	12.33	12.33	11.81	8.84	7.78
Benchmark*	2.00	3.41	14.16	14.16	12.22	9.13	7.66
Outperformance (Net of Fees)	-0.23	-1.25	-1.84	-1.84	-0.41	-0.30	0.12

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

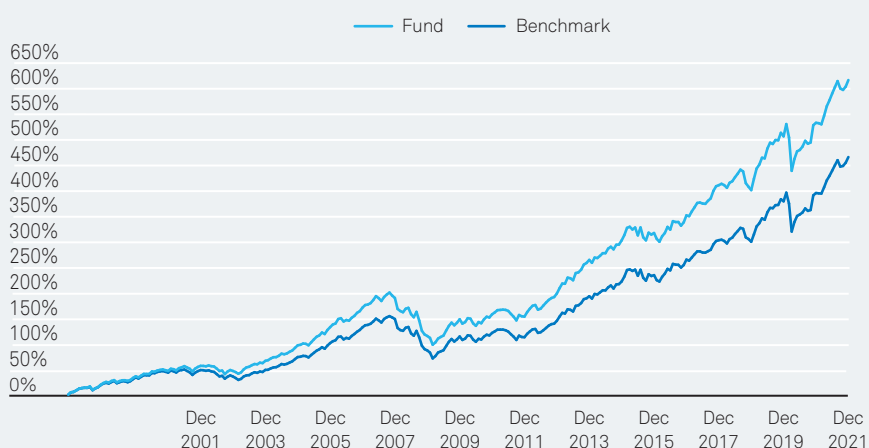
Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised.

* 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 31 December 2021



Performance Summary

Market Overview

The last quarter of the year was a volatile one for financial markets. The emergence of the Omicron variant of COVID-19 pushed global case numbers to new highs, adding significantly to investor uncertainty over the period. Despite the tightening of restrictions in some regions, central banks pushed ahead with their normalization plans and took on a more hawkish tilt. Recent data supported the notion that the Omicron variant has a milder effect on the population and hospitalization rates appeared manageable. Investors looked through the noise and volatility in markets and pushed equity prices higher over the period. Nonetheless, concerns around a slowdown in global growth, geopolitical tension, inflation and supply chain constraints remain elevated into 2022.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

Most developed market equities finished the quarter positive after a moderate correction in November. Emerging markets equities were slightly down, weighed by China as the country continues to undergo regulatory change to provide a more stable backdrop for long-term growth in 2022. High inflation continues to be a key topic in the US, Europe, parts of Asia and New Zealand. Developed market government bond indices, including New Zealand bonds also experienced a volatile period and finished the year down as rates continued to advance amidst upward trending inflation.

United States

In the US, the S&P 500 Index gained 11% over the quarter (in local currency terms). Despite hawkish Federal Reserve (Fed) comments and the emergence of the Omicron virus weighing on investor sentiment, strong corporate earnings growth helped generate positive equity returns over the period. In terms of sectoral moves, Real Estate and Technology stocks outperformed over the quarter, with the S&P 500 setting a dividend payment record, signaling a move past the COVID recovery.

On the policy front, the US Fed adopted a more hawkish stance on the back of a tightening US labor market and ongoing inflationary pressures. The Fed doubled the pace of tapering and signaled three rate hikes in 2022. It also indicated that its balance sheet run-off will likely start sooner and the run-off amounts will likely be larger. US GDP growth expanded at an annual rate of 2.3% in Q3, outpacing estimates of 2.1% despite record COVID-19 cases and hospitalizations. Strong consumer demand and a sharp rise in wages was coupled with a drop in the unemployment rate to 3.9% in December, a pandemic low. However, the US economy is still 3.6 million jobs short of pre-pandemic levels, indicating that many are still reluctant to return to the workforce given the prevalence of both the Delta and Omicron variants of COVID-19 within the economy. This was furthered by a fall in the December flash services PMI, signaling a loss of momentum into 2022.

Europe

European equity markets represented through the Euro Stoxx 600 Index gained 6.4% over the quarter (in local currency terms). The Utilities sector was one of the strongest performers, with Information Technology also seeing a robust advance.

Within the European block, annual inflation grew to an all-time high of 5% as high energy prices and supply chain disruptions added heavily to the December inflation figure. A rapid increase in COVID-19 infections as a result of the colder climate and contagious nature of the Omicron variant hindered growth. The IHS Markit Eurozone Services PMI declined to 53.3 in December. However, a slowdown in new businesses and reintroduction of COVID related restrictions did little to dampen December's manufacturing PMI with healthy expansion indicating strong consumer confidence. The European Central Bank (ECB) decided to end its bond purchases under its pandemic emergency purchase program (PEPP) by March 2022 however, bond buys under the Asset Purchase Program (APP) will ramp up to serve as a segue until the end of the PEPP. December also marked the end of Angela Merkel's 16-year tenure as Chancellor of Germany, with newly elected Olaf Scholz of the Social Democrats expected to introduce decarbonization and digitalization policies alongside a strong fiscal revamp from 2023 onwards.

Within the UK, equity markets finished the fourth quarter with positive gains of almost 5%, as measured by the FTSE Index. A slowdown in the UK economy, prior to the emergence of the Omicron variant, revised GDP growth figures from 1.3% to 1.1% in Q3. Despite the end of the UK furlough program, labour markets continued to tighten as the unemployment rate dropped to 4.2% and job vacancies peaked to 1.2 million, signalling further wage related price increases. Disruptions to global supply chains and high energy prices pushed the UK CPI to 5.1% year-over-year in November, the highest rate in a decade. The Bank of England subsequently raised interest rates by 0.15% to 0.25%, marking the first-rate hike in three years.

Asia

Asian equities recorded mixed performances over the quarter, driven by pandemic-related restrictions and global concerns over the spread of the Omicron variant. China's economy continued its recovery, albeit at a slower pace, with GDP growing at 4.9% in Q3, down from 7.9% in Q2. Contrary to other global banks, the People's Bank of China (PBOC) reduced lending costs through cuts to the short-term loan prime rate and reserve requirement ratio in a bid to support domestic businesses. Macro data pointed to a slowdown in China's domestic consumption, with weakened retail sales in Q3 driven by continued job uncertainty and crackdowns on real estate developers, both factors affecting consumer confidence. Chinese equities gained 1.6% over the quarter but underperformed most global peers.

Australia

In Australia, the S&P/ASX300 Accumulation Index recorded positive performance of 2.2% over the quarter. Materials, Utilities and Real Estate performed best, while Energy, Technology and Financials fell as inflationary pressures and peaking COVID-19 cases dampened sentiment. The GDP print for Q3 came in negative (down 1.9% but roughly in line with expectations), reflecting a significant fall in consumption due to lockdowns over the period. The consumer confidence index fell by 1% in December with ongoing concerns around COVID-19 and inflation dominating headlines. Changes to the serviceability buffer have also slowed down the pace of house price growth to 1% in December. Unemployment declined meaningfully to 4.6% in November, while the participation rate jumped on the back of easing pandemic restrictions. Despite coming out of an extended lockdown and slowdown in activity, the RBA made no changes to its monetary policy in December. However, markets have started to price in rate hikes in 2022.

Fixed Income

Similar to equity markets, Fixed Income markets were also characterized by increased volatility. Global Bond yields continued to rise, post a brief November relief and most bond returns ended the year in negative territory. Developed market bond indices fell early in the quarter before scaling back in December after the emergence of the Omicron variant. The Australian composite bond index finished the quarter down 1.5%, whilst the global composite bond index finished the quarter roughly flat. Riskier parts of the fixed income markets, such as emerging markets debt and high yield indices recorded mixed performance, with high yield closing the year up 3.8%, whereas investment grade recorded losses. Emerging market debt and investment grade finished the quarter roughly flat whereas the Global High Yield index gained approximately 0.6%.

Commodities & FX

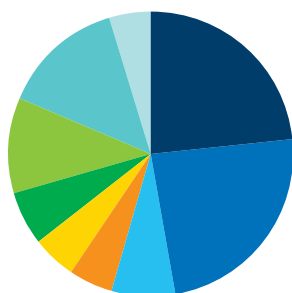
Major commodity indices recorded positive performance over the quarter. Gains in industrial metals, in particular copper and nickel, were led on the back of economic recoveries and increased electrification over the period. Crude and Brent energy prices gained slightly over the quarter given concerns around persistent supply deficits and ongoing increases in demand. Gold and iron ore also gained over the period, alongside a slight appreciation in the Australian dollar.

Strategy Commentary – Q4 2021

The BlackRock Diversified ESG Growth Fund gained 2.16% over the quarter (after fees), behind its diversified benchmark which gained 3.41%. 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 also contributed positively. Fixed income securities finished the quarter roughly flat, with inflation-linked bonds outperforming their nominal counterparts. Emerging markets equities were somewhat of an outlier and weighed down on returns partly driven by ongoing growth concerns in China and persistent supply chain disruptions.

Looking at active returns, the Fund underperformed its diversified benchmark over the period (after fees). On the positive side, security selection in Australian equities generated positive active returns. On the flipside, stock selection in international equities detracted and offset active returns over the period. Within international equities, positioning in the Chinese education sector and small caps resulted in a significant drag on performance. Healthcare stock selection also detracted. 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 also detracted over the quarter. 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	23.34	24.00
International Shares	23.90	24.00
Emerging Markets Shares	7.40	7.50
Global REITs (unhedged)	5.01	5.00
Global Listed Infrastructure (unhedged)	5.07	5.00
Gold	5.98	6.00
Australian Bonds	10.94	11.00
International Bonds	13.90	14.00
Cash	4.46	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	497 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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