

# BLACKROCK DIVERSIFIED ESG GROWTH FUND

# BLACKROCK®

## FUND UPDATE

31 January 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>	-0.12	6.36	-0.12	0.28	7.16	9.25	8.24
Benchmark*	-0.13	7.05	-0.13	-0.26	6.97	8.76	7.11
Outperformance (Gross of Fees)	0.01	-0.69	0.01	0.54	0.19	0.49	1.13
BlackRock Diversified ESG Growth Fund (Net of Fees) <sup>2</sup>	-0.18	6.15	-0.18	-0.49	6.38	8.44	7.56
Benchmark*	-0.13	7.05	-0.13	-0.26	6.97	8.76	7.36
Outperformance (Net of Fees)	-0.06	-0.90	-0.06	-0.22	-0.59	-0.31	0.20

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

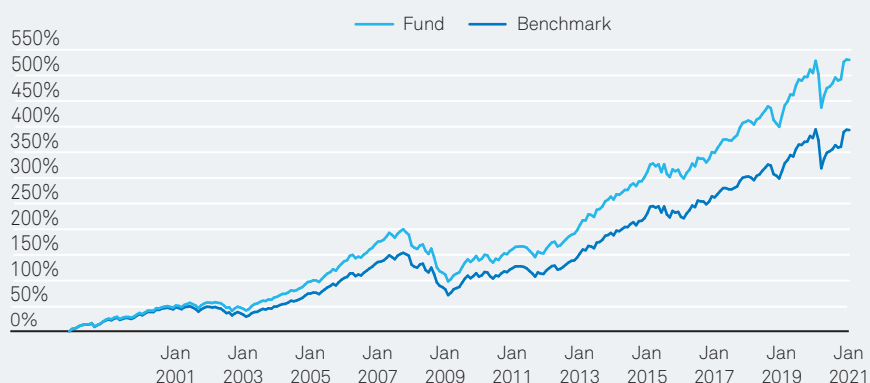
Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised.

\* 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 31 January 2021



### Market Review

Following the strong rally in global equities towards the end of 2020, share markets continued to advance in January before falling sharply at month-end. The positive investor sentiment heading into the new year was tested by persistently high global virus cases, issues around the vaccine roll-out, worries about stretched equity valuations, violence in the US Capitol Building and a trading frenzy in the US (e.g. GameStop). Share market volatility increased and several indices finished the month in red territory. 'Safe haven' government bonds also recorded somewhat negative returns in January as global yield curves steepened (i.e. longer-term rates increased while short-term rates stayed low).

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

## US

In the US, the S&P 500 Index declined 1.0% in January. US shares traded in a choppy fashion over the month but initially trended higher following the ratification of the election victory of Joe Biden and the announcement by the new administration of another US\$1.9 trillion fiscal support package (which still needs to work its way through the Democrats' thin control of Congress). However, US shares declined sharply towards the end of the month as news of a 'short squeeze' in the US market dominated headlines. In particular, news around hedge funds suffering large losses from their short positions in games retailer, GameStop, was overshadowing. Macro-economic data was mixed over the month. Growth in the US economy moderated somewhat in the fourth quarter following record growth figures in the previous quarter, as consumer spending softened slightly. On the other hand, other parts of the US economy, such as housing and business investment, performed well. The Federal Reserve Bank ("Fed") reaffirmed its commitment to keep interest rates low and monetary stimulus in place until the economic rebound has traction. The US quarterly earnings season kicked off in January, with results generally fairly encouraging. Approximately one third of the companies in the S&P 500 Index have reported their quarterly earnings results (as of 31 January), with the majority beating earnings and revenue forecasts.

## Europe

European equity markets declined somewhat in January. COVID-19 cases remained high in Europe and the recently introduced lockdown restrictions have caused several economic indicators to weaken. For example, mobility indicators and restaurants bookings remained at recent lows and the German Bundesbank's broad growth tracker signaled a decline in activity (quarter-on-quarter). That said, mobility measures show greater resilience than in the spring last year. There appears to be a divergence in the vaccine rollout in developed countries, with Europe lagging behind the UK and US, which has already resulted in some political implications. For example, tensions escalated between the European Union (EU) and UK over vaccine supplies in late-January, with the EU at one point threatening to close the Irish border. The EU quickly changed its stance, but the incident has highlighted the complexities of a post-Brexit Europe.

## Asia

Asian equity markets generally outperformed their global peers in January. A strong and resilient Chinese economy supported share markets in the region. China was the only large economy globally with positive GDP growth in 2020, thanks to an effective management of virus outbreaks and meaningful government financial support. Nonetheless, after China's swift economic recovery in 2020, there are signs that the positive momentum has faded somewhat. Chinese manufacturing and non-manufacturing PMIs fell more than expected in January. Tighter COVID-related restrictions are a likely reason for some of this softening, alongside colder weather and a less supportive policy stance.

## Australia

In Australia, the S&P/ASX300 Accumulation Index gained slightly (+0.3%) over the month. Six out of Australia's 11 industry sectors posted gains in January. Consumer Discretionary (+4.7%) and Telecom (+2.7%) were the best performing sectors, while Property Trusts (-4.1%) and Industrials (-3.0%) performed worst. Economic data was generally positive over the month. For example, Australian retail trade figures improved (more than expected) and the domestic labour market also continued to recover. Recent data showed that 50,000 new jobs were gained in December, which saw the unemployment rate decline to 6.6% – largely driven by Victoria's normalisation post lockdown. Despite the recent improvements, full-time employment continued to lag and remained 1.3% below levels seen in March 2020 before lockdowns were first introduced. Monetary conditions remained very accommodative in Australia and the domestic housing market has accelerated again.

## Fixed Income

Fixed income assets generally recorded slightly negative performance over the month. Global yield curves steepened, as longer-term rates increased and short-term rates stayed steady – leading to a decline in bond prices. For example, the yield on US 10-year government bonds increased by 0.15% in January to a level of 1.07%, while 2-year yields stayed low at 0.11%. In Australia, the yield on 10-year government bonds increased by 0.16% to 1.13%, while 2-year rates remained anchored at 0.11%. Inflation expectations moved higher over the month, especially in the US, which helped US inflation-linked bonds outperform nominal bonds.

## Commodities

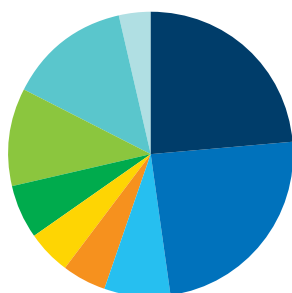
Commodity markets recorded mixed performance over the period. Iron ore declined slightly after strong price gains in 2020. Gold also declined in January, while energy prices increased. Looking at currency markets, the US dollar trade-weighted index gained in January, after approaching a near three-year low in December. The Australian dollar trade-weighted index decreased by 0.6%, depreciating most against the British Pound (GBP) and US dollar (USD).

## Strategy Commentary – January 2021

The BlackRock Diversified ESG Growth Fund declined slightly in January (-0.18%, after fees), roughly in line with its diversified benchmark. Australian and Emerging Market equities had a positive month and added to total returns. International equities and infrastructure assets detracted, while the portfolio's more defensive asset classes (such as fixed income and gold) recorded flat to slightly negative returns over the period.

Looking at active returns, the Fund performed roughly in line with its diversified benchmark over the month. Security selection in international equities, global REITs and fixed income markets added to active returns, while security selection in Australian equities offset performance.

### Fund Allocation



	Fund	Benchmark
Australian Shares	23.83	24.00
International Shares	24.13	24.00
Emerging Markets Shares	7.77	7.50
Global REITs (unhedged)	4.97	5.00
Global Listed Infrastructure (unhedged)	4.95	5.00
Gold	5.95	6.00
Australian Bonds	10.85	11.00
International Bonds	13.84	14.00
Cash	3.69	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	474 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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