

BLACKROCK DIVERSIFIED ESG STABLE FUND

BLACKROCK®

FUND UPDATE

30 June 2021

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Wholesale Diversified ESG Stable Fund (Gross of Fees) ¹	0.99	3.59	3.94	8.40	6.18	6.11	6.70
Benchmark*	0.98	3.38	3.80	8.25	5.87	5.52	6.07
Outperformance (Gross of Fees)	0.01	0.21	0.14	0.15	0.31	0.59	0.62
BlackRock Diversified ESG Stable Fund (Net of Fees) ²	0.93	3.42	3.59	7.71	5.48	5.41	6.12
Benchmark*	0.98	3.38	3.80	8.25	5.87	5.52	6.27
Outperformance (Net of Fees)	-0.05	0.03	-0.21	-0.54	-0.39	-0.12	-0.15

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

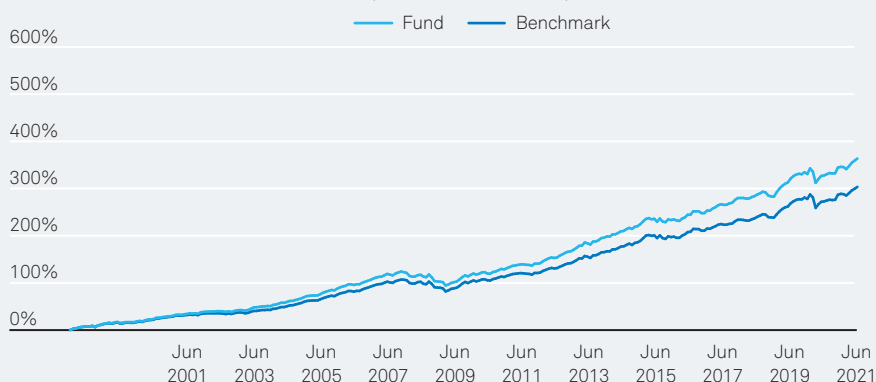
Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised.

* 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, Bloomberg Barclays MSCI Global Agg SRI Select ex-Fossil Fuels Index (hedged in AUD), BBG Barclays US Govt Inflation-Linked 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 Stable 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 June 2021



Market Overview

Most financial markets gained over the quarter, as reopening optimism and the accelerated vaccine rollout continued to drive positive performance across markets. This dynamic was supported by ongoing government support from a monetary and fiscal perspective. Within equities, developed economies had a particularly positive quarter. Governments in most developed markets have eased COVID-related mobility restrictions and activity levels have picked up alongside strong consumption growth, particularly in the US.

However, upbeat market sentiment saw pockets of concern due to the spread of the highly transmissible Delta variant, inflation spikes and central bank narratives. The increased spread of the Delta variant has caused renewed virus flare-ups in parts of the world, along with new mobility restrictions in certain countries. Emerging economies continued to lag on the vaccination front, and EM equities underperformed their developed counterparts over the quarter.

The US dollar depreciated early in the quarter, but bounced back strongly in June, following the

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

surprisingly hawkish shift in the US Fed's rate outlook. Fixed income markets broadly recorded positive performance over the quarter, as longer-term bond yields declined.

US

US equities gained 8.5% over the quarter. The US earnings season was significantly stronger than expected and macro data continued to point towards a quick economic recovery. The reopening of the US economy and a sharp rebound in activity has led to a spike in inflation. Headline Consumer price index (CPI) touched +5% in the May report and Core CPI reached +3.80% on a year over year basis. These record setting inflation prints fuelled market debate as to whether the uptick in inflation is transitory given the attribution to supply constraints and reopening sensitive components of CPI. Although the US Federal Reserve (Fed) did not alter its policy at the June meeting, the shift in tone regarding the future path of the federal funds rate turned the meeting into a significant market event. The Fed signalled two interest rate hikes in 2023, a shift compared to expectations of zero rate hikes. On the fiscal side, President Biden reached a deal on the Bipartisan Infrastructure Framework agreeing to a US\$1.2 billion infrastructure package.

On the economic front, US GDP grew strongly at an annualised rate of 6.4% during Q1 2020. Data from the US labour market was positive, with non-farm payrolls showing 850,000 jobs were added in June alone. Business indicators were also strong, with the ISM services index gaining over the quarter.

Europe

European equities rose in June leaving gains for the quarter at +4.8%. Within the European block, the broadening of the powerful restart of economic activity could be felt through the strong rebound in economic growth as the rate of vaccination accelerated, and mobility restrictions were lifted. Leading economic indicators have reached highs in many regions. Euro Area Industrial Production beat expectations and grew 0.8% in April, only marginally below its pre-COVID peak. The Euro Area composite PMIs were up to 59.5 in June, ahead of expectations, and at multi-year high levels. However, supply chain issues continue to constrain the Euro Area economy's output and international travel restrictions impacted COVID sensitive sectors such as travel and leisure. Despite the improving economic outlook, the European Central Bank (ECB) policymakers confirmed that that easy financing conditions would be maintained, allaying fears around the potential removal of policy support.

Within the UK, concerns over the more contagious Delta variant prompted action and the full easing of lockdown measures was delayed further. Whilst infections increased to higher levels, the hospital admission rate proved resilient, largely attributed to the advanced vaccination programs and efficacy. On the monetary policy front, the Bank of England (BoE) left interest rates and quantitative easing unchanged at the June meeting, however, the central bank acknowledged that inflation had been higher than expected.

Asia

Asian equities generally gained over the quarter but underperformed most of their global peers. There was a high level of dispersion across countries and sectors, partly driven by the differentiated pace of vaccination rollout and mobility restrictions implemented by governments in the area. Inflation was also a key concern in some Asian countries amidst rising raw material prices and production bottlenecks to meet the growing global demand for goods and services.

Headline PMIs in Asia fell, as signs of a mixed economic recovery emerge, with northern countries increasing output, whilst the south struggles with rising cases and supply-side bottlenecks. Further evidence of soft data from China with business activity shown to be weaker than

expectations across purchasing manager indices (PMI's). In India, COVID-19 cases have peaked and started to decline again, although this has yet to come through in the economic data. For example, India's services PMIs remained very soft and posted a reading of 41.2 in June (well below 50, which represents a contraction).

Japanese equities declined 1% over the quarter. Macro data was mixed and the vaccine rollout continued to prove challenging for Japanese officials, as take-up remained low. Inflation stayed subdued in Japan, which is in stark contrast to inflation elsewhere. Policy rates were unchanged, and the deadline of COVID-related programs was also extended by six months to March 2022 amid the on-and-off State of Emergency operations so far this year.

Australia

In Australia, the S&P/ASX300 Accumulation Index recorded strong positive performance of almost +8.5% over the quarter. The broad rally in domestic equities continued to be supported by improving economic activity along with strengthening commodity prices. GDP for Q1 was better than expected, helping annualized GDP return to positive territory. GDP in Q1 grew by 1.8% and brings GDP over the year to +1.1%. Macro data also showed strong job numbers as the Australian unemployment rate fell from 5.5% to 5.1%. House prices continued to move higher as record low interest rates and a limited supply of stock have underwritten demand. Retail sales were 1.1% higher and in line with expectations.

Accommodative monetary conditions from the Reserve Bank of Australia (RBA) have also underscored the equity market rally. The RBA, as expected, held rates steady and made little change to their policy outlook. Nonetheless, the recent outbreak of the highly infectious Delta COVID strain has prompted the government to levy mobility restrictions, which weighed on sentiment.

Fixed Income

Developed market government bond yields ended the month mostly lower, with US and Australia government bonds outperforming over the quarter. Australian and US 10-year government bond yields declined 26bps and 27bps, respectively, while short term rates remained steady. This dynamic caused longer-term bond prices to increase and pushed the Bloomberg Australian composite bond index 1.5% higher. The Bloomberg Global Aggregate Bond Index (hedged in AUD) gained nearly 1%. Inflation-linked bonds also performed strongly over the quarter, with Australia linkers up 3.3% and US TIPS up 3.2%.

Credit spreads continued to tighten, and Investment Grade and High Yield indices gained over the quarter. Local Currency Emerging market debt also performed well and gained almost 4.5% over the period.

Commodities & FX

Commodities closed the quarter strong even as the month of June saw some divergences in performance across the constituents. Energy prices rallied throughout the quarter supported by the economic reopening and aided by delays in Iran's re-entry into crude oil markets. Accordingly, WTI and Brent Crude gains for the quarter were +25% and +21% respectively. Precious metals such as Gold experienced a volatile period, gaining strongly in April and May but then falling sharply in June. The industrial metal copper experienced a similarly volatile pattern.

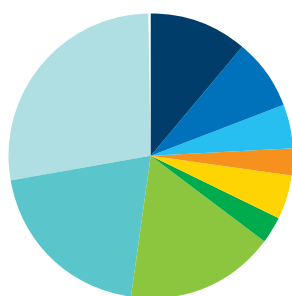
In terms of currencies, the US dollar depreciated early in the quarter, but bounced back strongly in June following the hawkish meeting by the US Federal Reserve. The Australian dollar weakened against the US dollar over the period.

Strategy Commentary – Q2 2021

The BlackRock Diversified ESG Stable Fund gained 3.42% over the quarter (after fees), slightly ahead of its diversified benchmark which gained 3.38%. Virtually all asset classes contributed positively to the Fund's overall return this quarter. Growth assets, such as Australian and international equities, global REITs and emerging markets equities 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.

Looking at active returns, the Fund slightly outperformed its diversified benchmark over the period (after fees). Security selection within Australian equities worked well and generated positive active returns. For example, underweight positions in oil & gas and airlines versus overweights in commercial services companies and real estate added to performance. Security selection in global infrastructure assets was also additive, along with positive contribution from the Fund's liquid alternative strategies. On the flipside, stock selection in international equities detracted and offset active returns over the period.

Fund Allocation



	Fund	Benchmark
Australian Shares	11.15	11.00
International Shares	8.13	8.00
Emerging Markets Shares	5.13	5.00
Global REITs (unhedged)	3.00	3.00
Global Listed Infrastructure (unhedged)	5.08	5.00
Gold	2.86	3.00
Australian Bonds	17.03	17.00
International Bonds	20.07	20.00
Cash	27.56	28.00

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 70% defensive and 30% 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 defensive 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 Stable Fund	
APIR	BGL0002AU
Fund Size	65 mil
Buy/Sell Spread	0.09%/0.11%
BlackRock Diversified ESG Stable Fund	
APIR	BAR0811AU
Management Fee	0.69% p.a.

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