BLACKROCK DIVERSIFIED ESG STABLE FUND

BLACKROCK®

FUND UPDATE **30 June 2022**

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Wholesale Diversified ESG Stable Fund (Gross of Fees)[1]	-3.23	-5.61	-8.33	-6.44	0.99	3.49	6.13
Benchmark*	-2.97	-5.03	-7.57	-5.34	1.19	3.39	5.59
Outperformance (Gross of Fees)	-0.27	-0.58	-0.76	-1.10	-0.20	0.10	0.55
BlackRock Diversified ESG Stable Fund (Net of Fees)[2]	-3.28	-5.77	-8.63	-7.07	0.32	2.80	5.57
Benchmark*	-2.97	-5.03	-7.57	-5.34	1.19	3.39	5.79
Outperformance (Net of Fees)	-0.32	-0.74	-1.06	-1.73	-0.87	-0.59	-0.22

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

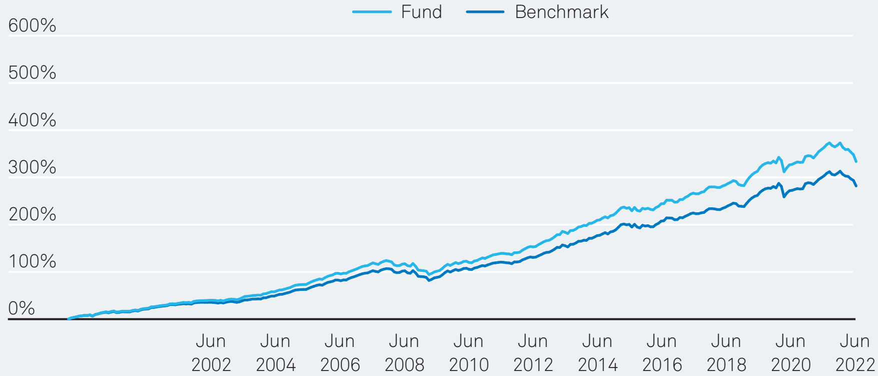
Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised.

* 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℠, 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 Index℠.

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 2022



Performance Summary

Market Overview

The second quarter of the year was marked by volatility, with equities and fixed income selling off on the back of recessionary concerns, high inflation, and tightening financial conditions. Global equities finished the quarter down -15.5%, with Emerging Markets outperforming Developed Market counterparts. Fixed income markets were challenged by higher yields particularly at the start of the quarter, before reclining downwards towards the end of June amidst concerns that policy tightening may hurt the economy.

Visit **BlackRock.com.au** for further information, including:

- Market Insights & Commentary
- Fund Performance
- Unit Prices

United States

In the US, the S&P 500 Index declined by -16.1% over the quarter, and by -8.3% over the month of June (in local currency terms). All sectors, including Energy, declined over the month as growth concerns weighed on investor sentiment.

The Federal Reserve (Fed) increased the policy rate by 125bps over the second quarter, as the Fed continues to battle with tightening labour markets and elevated inflationary readings. Headline inflation accelerated further in May, rising 8.6% over the year, with gasoline, food and shelter prices contributing to the increase. While the unemployment rate remained at 3.6% for the third month in a row, consumer confidence index fell sharply as consumer resiliency was tested by the future prospect of persistent inflation. Meanwhile, the Manufacturing PMI index declined from 57 to 52.7 in June, marking the slowest growth in factory activity since July 2020. Market-based interest rate expectations re-priced downwards towards the end of June, reflecting concerns that central banks may be stalling the restart with higher policy rates.

Europe

European equity markets represented through the Euro Stoxx 600 Index declined by -10.1% in the second quarter, and by -9.3% in June (in local currency terms) as ongoing concerns around Europe's heavy reliance on Russian oil and natural gas continued to raise risks of economic deceleration.

Within the European block, annual flash headline inflation hit an all-time high of 8.6% in June. Rising food and energy prices, alongside growing core inflation readings, have continued to add to concerns that high inflation may become entrenched in the region. The Euro Area economic sentiment slipped in May as consumers saw increasing headwinds to the outlook. The European Central Bank (ECB) further reiterated the possibility of a rate hike in July and an exit to negative interest rates by the end of Q3.

While the UK equity market outperformed most other major Developed markets, it still declined by -3.7% over the quarter and -5.5% over June (in local currency terms). The Bank of England (BoE) hiked rates by 50bps over the period as UK inflation soared to 9.1% in May, the highest reading in more than 40 years. The unemployment rate rose slightly to 3.8% in the three months through April, marking the first increase in over a year. Meanwhile, consumer confidence fell to its lowest historic levels as consumers battled with renewed economic fears and experienced the squeeze from negative real wage growth. The deterioration in sentiment is in spite of the Chancellor's announced fiscal measures to help offset rising household costs alongside a '25% Energy profits Levy' on UK energy firms to ease the cost of living crisis. The UK manufacturing PMI fell further to 52.8 in June, as new orders contracted at the fastest rate in two years.

Asia

Asian equities rebounded over the quarter, driven by the rebound in activity across China. Specifically, Chinese equities, as represented by the CSI 300, rose +7.3% in the second quarter, after declining by over -15% in the first quarter. Economic data within China have appeared to bottom, with retail sales and industrial production figures for May surprising on the upside. The official manufacturing PMI rose to 50.2 in June, marking the first time it has crossed the 50 expansionary threshold since February. Chinese banks cut key interest rates for long-term loans with the five-year loan prime rate reduced to 4.45% alongside more than 140 billion yuan in tax relief offered to companies and consumers to offset the heavy impact of COVID lockdowns.

Japanese equities, as represented by the TOPIX Index, declined by -3.7% over the quarter and by -2.1% in June (in local currency terms), as the economy battles with slowing manufacturing growth and rising inflation. The Bank of Japan (BOJ) continued to maintain its stance of defending its yield target despite core consumer prices rising 2.1% y/y in May, ahead of the BOJ's 2% target.

Australia

The S&P/ASX 300 Accumulation Index detracted by -12.2% over the quarter, and by -9.0% over June, underperforming most other developed markets amid ongoing uncertainty around the domestic inflation and policy outlook. The Reserve Bank of Australia (RBA) increased the cash rate by 75bps over the second quarter, with further hikes expected in the coming months. There are initial signs of increasing wage growth in Australia after a decade of low growth, with a growing share of businesses reporting larger wage payouts amid a tightening labor market.

Fixed Income

Fixed Income markets were challenged over the second quarter, as investors priced in more aggressive expectations for monetary tightening. The US 10 year yield rose by 67bps to end the quarter at 3.0%, and the Australian 10 year yield rose by 82bps to finish the quarter at 3.7%. The rise in rates created near-term headwinds for fixed income returns, with Australian composite bond index declining by 3.8% and Global Agg index declining by 4.7% over the quarter. Riskier parts of the fixed income markets, such as emerging markets debt and high yield indices underperformed over the period as spreads widened.

Commodities & FX

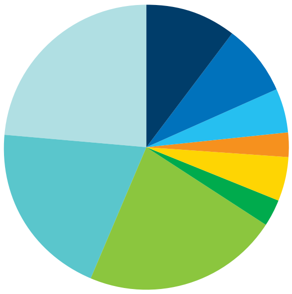
Energy retraced some of its gains in June following strong performance at the start of the quarter, as global demand began showing signs of weakening. Within currencies, the USD trade-weighted index strengthened by 2.9% in June, whilst the Australian trade-weighted index depreciated by 2.2% over the period.

Strategy Commentary – Q2 2022

The BlackRock Diversified ESG Stable Fund declined -5.77% over the quarter (after fees), behind its diversified benchmark which detracted -5.03%. Virtually all asset classes underperformed in Q2 as result of recessionary concerns, high inflation, and tightened financial conditions. Growth assets including Australian Equities, International Equities and International Property detracted over the period. The Fund's more defensive asset classes including Australian Fixed income, Global Fixed Income, Australian Inflation Linked Bonds and US Inflation Linked Bonds also underperformed over the quarter The allocation to Gold acted as a useful diversifier and contributed positively to overall performance given gold's safe-haven status during periods of high uncertainty as did the Fund's Global Infrastructure allocation given its resilience in an inflationary environment.

Looking at active returns, the Fund underperformed its diversified benchmark over the period (after fees). Stock selection in Australian and International equities detracted and offset active returns over the period. The Fund's Global High Yield allocation contributed positively to active returns. 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 detracted over the quarter. Tactical overweight positions to European and Japanese equities, relative to other regions, were a key drag on active returns.

Fund Allocation



	Fund	Benchmark
Australian Shares	10.53	11.00
International Shares	7.88	8.00
Emerging Markets Shares	5.03	5.00
Global REITs (unhedged)	2.94	3.00
Global Listed Infrastructure (unhedged)	4.98	5.00
Gold	3.07	3.00
Australian Bonds	22.01	22.00
International Bonds	20.16	20.00
Cash	23.41	23.00

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	73 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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