BLACKROCK DIVERSIFIED ESG STABLE FUND

BLACKROCK®

FUND UPDATE **31 December 2022**

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- Fund Performance
- Unit Prices

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Wholesale Diversified ESG Stable Fund (Gross of Fees)[1]	-1.52	3.45	-6.71	-6.71	0.81	3.03	6.08
Benchmark*	-1.84	3.09	-6.60	-6.60	0.69	2.93	5.52
Outperformance (Gross of Fees)	0.32	0.36	-0.12	-0.12	0.11	0.10	0.56
BlackRock Diversified ESG Stable Fund (Net of Fees)[2]	-1.58	3.27	-7.34	-7.34	0.12	2.35	5.51
Benchmark*	-1.84	3.09	-6.60	-6.60	0.69	2.93	5.72
Outperformance (Net of Fees)	0.26	0.18	-0.74	-0.74	-0.57	-0.58	-0.20

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

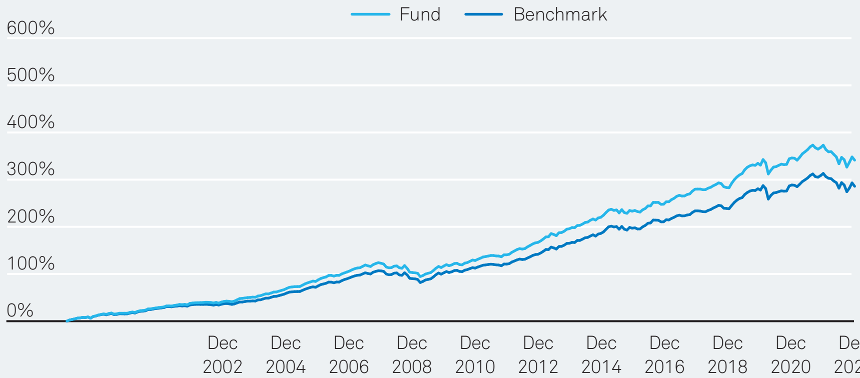
Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised.

* The benchmark is a diversified allocation of the S&P/ASX 300 Gross Total Return Index, MSCI Australia IMI Specified ESG Screened Index, MSCI World Net Total Return Index (hedged in AUD), MSCI Emerging Markets Net Index (unhedged in AUD), FTSE Developed Core Infrastructure 50/50 Net Tax Index (unhedged in AUD), FTSE EPRA Nareit Developed Index Net TR Index (unhedged in AUD), Refinitiv Gold Fixing Price Index (unhedged in AUD), Bloomberg Barclays MSCI Australia 100mn ESG Index, Bloomberg AusBond Inflation Government 0+ Year IndexSM, Bloomberg Barclays US Govt Inflation-Linked Index (hedged in AUD), Bloomberg Barclays MSCI Global Aggregate SRI Select ex-Fossil Fuels Index (hedged in AUD), ICE BofA Developed Markets HY Constrained Index (hedged in AUD), Bloomberg AusBond Bank Bill Index℠.

Please note that effective from 31 May 2022 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 31 May 2022 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 2022



Performance Summary

Market Overview

Major asset classes rose over the final quarter of 2022, although growing recession fears saw sentiment wane in December. Global equities, as measured by the MSCI World Index, increased by 3.9% over Q4 in Australian dollar terms, supported by the unwinding of China's zero-COVID policy and softer inflation data. Emerging Markets outperformed their Developed Market counterparts. For the full year, global equities remain in negative territory at -12.5%. Fixed Income markets, as represented by the Bloomberg Barclays Global Aggregate Index (hedged) gained 0.6% over the quarter after suffering sharp losses earlier in the year.

United States

In the US, the S&P 500 Index increased by 7.6% over the quarter but fell by 5.8% in December (in local currency terms), The initial rally in equities was underpinned by resilient corporate earnings and moderating inflation data, the latter of which bolstered investor hopes for a less aggressive monetary stance. The US Federal Reserve (Fed) slowed the pace of rate hikes by increasing the Fed funds rate by only 50bps in December (compared to 75bps in November). However, the Fed published a new set of interest rate projections which predicted the policy rate will rise to 5.1% by the end of 2023 – another significant revision upwards. A decline in goods prices saw two consecutive months of weaker CPI data, however services inflation remains stubbornly high. The US labour market remains tight, with average US hourly earnings rising by double the consensus forecast in November to reach a 5.1% annual rate.

Europe

European equity markets, as represented through the Euro Stoxx 50 Index, increased by 14.6% in the fourth quarter but declined by 4.3% in December (in local currency terms). Early signs that the European energy crisis may be abating and a possible peak in inflation helped stocks rally during the quarter. While Eurozone consumer prices rose by 10.1% in November, this was lower than markets had expected, given a noticeable drop in energy prices, and down from a record high in October. However, equities lost momentum after the European Central Bank's (ECB) policy meeting in December, as investors baulked at the hawkish rhetoric by ECB President, Christine Lagarde, who signalled that future rate increases would be higher than expected and painted a bleak economic picture. The ECB also announced that quantitative tightening will begin in March 2023 to shrink the bond holdings on their balance sheet.

The UK equity market gained by 8.7% over the quarter but lost 1.5% in December (in local currency terms). A significant turnaround in UK fiscal policy and change in political leadership early in the quarter saw British financial markets stabilise. The new government led by Prime Minister, Rishi Sunak, unveiled a budget statement which cut spending and raised taxes, charting a course to a more sustainable level of economic activity. Meanwhile, the Bank of England (BoE) raised interest rates by 50bps in December and signaled further monetary tightening ahead in 2023. Headline UK inflation remains close to historic highs and rose by 10.7% per annum over November.

Asia

Asian equities recorded positive returns in Q4. China's CSI 300 Index rose by 2.0% over the quarter and by 0.6% in December (in local currency terms), as the government unwound the country's zero-COVID policy after widespread anti-lockdown protests across multiple Chinese cities. Stocks held onto gains as investors looked beyond the near-term disruptions from the virus spread to a broader economic reopening in 2023. Chinese authorities also rolled out several stimulus measures and pledged support for the real estate industry and the broader economy. Earlier in the quarter, Chinese President, Xi Jinping, secured an unprecedented third term at the 20th Communist Party Congress.

Japanese equities, as represented by the Nikkei 225 Index, gained 0.8% over the quarter but fell sharply by 6.5% in December (in local currency terms). The Bank of Japan's (BoJ) unexpected decision to tighten policy by allowing the 10-year government bond to trade across a wider band, caught markets off-guard late in the year. This policy change comes amid core inflation that is currently sitting near 40-year highs and has remained above the BoJ's target of 2% for much of 2022 – driven by a relatively weak Japanese Yen and higher energy prices.

Australia

The S&P/ASX 300 Accumulation Index rose by 9.1% over the quarter and declined 3.3% in December, with Utilities and Materials among the best performing sectors. The Reserve Bank of Australia (RBA) hiked interest rates three times by 25bps over the quarter, bringing the official cash rate to 3.10%, although meeting minutes showed that the central bank contemplated pausing rate hikes in December. Upside inflation risk from higher wages growth is front of mind for the RBA as the Australian labour market remains tight with unemployment near five-decade lows. Meanwhile, Australian house prices continued to decline, dropping 3.3% nationally over the quarter and falling 5.3% across 2022 (as represented by the CoreLogic Home Value index).

Fixed Income

Fixed Income markets were roughly flat over the quarter, after selling off sharply earlier in the year. Global bonds were initially supported by speculation that monetary tightening will soon moderate, however sold off in December after the BoJ's surprise decision to tighten policy. US and Australian 10-year yields modestly rose by 5bps and 17bps across Q4 (having sharply increased in December) to end 2022 at 3.9% and 4.1% respectively. Despite the rise in yields, the Australian composite bond index increased by 0.4% and the Global Aggregate index by 0.6% over the quarter. Riskier parts of the fixed income market, such as emerging market debt and corporate credit indices, generated meaningful gains over the quarter as credit spreads tightened amid improved risk sentiment.

Commodities & FX

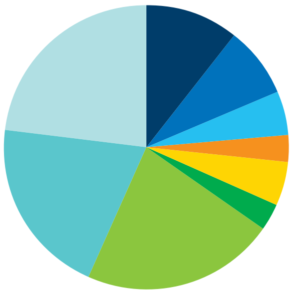
Commodity and energy prices recorded gains over Q4. Iron Ore prices rebounded strongly across the quarter, rising by 26.1% as China unwound its zero COVID policy and announced support measures for its property sector, while Oil prices also increased by 6.4%. Gold prices rose by 9.8% over the period alongside global recession fears. Within currencies, the US dollar depreciated against its developed market peers, weakening by 6.8% in Q4. The Australian dollar appreciated against the US dollar by 6.5% across the quarter, however finished the year down 6.2%.

Strategy Commentary – December 2022

The BlackRock Diversified ESG Stable Fund recorded a positive return for the quarter of 3.27% (after fees). Global markets rose over the final quarter of 2022, supported by the unwinding of China's zero-COVID policy and softer inflation data. However, growing recession fears ahead of 2023 saw both growth and defensive assets retrace gains in December. Growth assets performed strongly over the quarter, with positive performance driven by Australian Equities, International Equities and Emerging Market Equities. Global Infrastructure realised modest gains in Q4, while Global Property was roughly flat across the period. The Fund's more defensive asset classes, namely Australian Inflation Linked Bonds, US Inflation Linked Bonds, and Global High Yield, also outperformed over the period. The defensive allocation to Gold contributed to the Fund's performance.

On the active front, the Fund outperformed its diversified benchmark over the quarter by 0.18% (after fees). Stock selection within Global Equities and Australian equities detracted from active returns over Q4, which was partially offset by active positioning within Emerging Market equities. Global Property also underperformed its underlying benchmark, while Global High Yield contributed to alpha across the period. The Fund also 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 contributed over the quarter.

Fund Allocation



	Fund	Benchmark
Australian Shares	10.76	11.00
International Shares	7.90	8.00
Emerging Markets Shares	5.10	5.00
Global REITs (unhedged)	3.01	3.00
Global Listed Infrastructure (unhedged)	5.01	5.00
Gold	3.13	3.00
Australian Bonds	21.89	22.00
International Bonds	20.19	20.00
Cash	22.99	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	76 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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