

BLACKROCK DIVERSIFIED ESG STABLE FUND

BLACKROCK®

FUND UPDATE

31 December 2020

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Wholesale Diversified ESG Stable Fund (Gross of Fees) ¹	0.37	3.28	3.53	3.53	5.48	5.91	6.67
Benchmark*	0.51	3.51	2.83	2.83	5.18	5.45	6.04
Outperformance (Gross of Fees)	-0.14	-0.23	0.70	0.70	0.29	0.46	0.63
BlackRock Diversified ESG Stable Fund (Net of Fees) ²	0.31	3.10	2.82	2.82	4.78	5.20	6.09
Benchmark*	0.51	3.51	2.83	2.83	5.18	5.45	6.24
Outperformance (Net of Fees)	-0.20	-0.40	-0.01	-0.01	-0.40	-0.25	-0.14

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

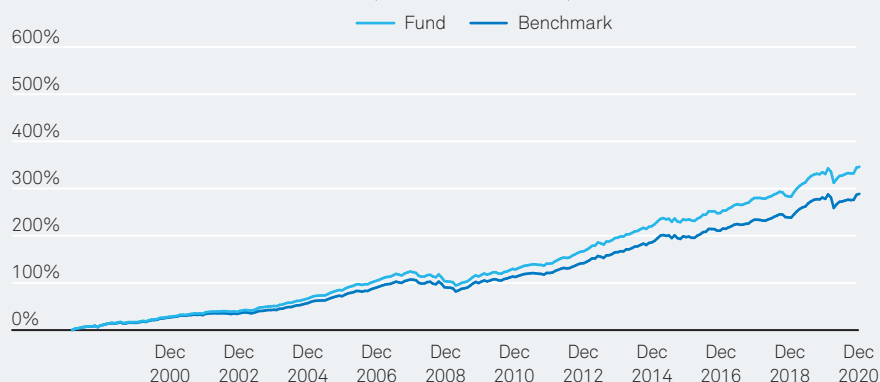
Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised.

* 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 31 December 2020



Market Review

Sharemarkets across the globe enjoyed strong returns in the fourth quarter of 2020, with many indices reaching new all-time highs following a year that contained a global pandemic, record-breaking recession and a contentious US presidential election. Risk appetite improved over the quarter as the US election came to an end and positive COVID-19 vaccine news stoked investor optimism. On November 9th, Pfizer-BioNTech announced that its clinical trial has returned preliminary results suggesting that its vaccine is over 90% effective in preventing COVID-19 (well above expectations). A few days later, another drug maker – Moderna – also reported strong trial results. This was followed by news of a third potential COVID-19 vaccine candidate developed by the company AstraZeneca in partnership with the University of Oxford. Within weeks the Pfizer-BioNTech vaccine was approved in Europe and the US – with the vaccine administered to the first patient in the UK on December 8th. Later in December, the US Food and Drug Administration (FDA) authorized the country's second vaccine (Moderna), clearing the way for millions of doses to be released in the US within weeks. Other countries, including Australia, are also planning to

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- Fund Performance
- Unit Prices

approve a COVID-19 vaccine in the weeks ahead triggering hope that mass immunization could bring an end to the global pandemic and speed up the economic recovery.

Although broad market indices enjoyed stellar performance over the quarter, there was a lot happening under the surface. The positive vaccine developments triggered sharp rotations and major swings in financial markets. Cyclical sectors and industries that had previously suffered relatively weaker performance outperformed significantly, while technology stocks underperformed. Small-cap stocks rallied, while the generic Momentum factor (a metric that captures positively trending stocks) experienced one of the sharpest and deepest drawdowns in history in November. Financial markets appeared relatively unfazed by the resurgence in COVID-19 cases in various parts of the world. The higher infections and new more-transmissible variants of the virus prompted more stringent and longer restrictions throughout the world, but investors appeared to look through these near-term challenges.

US

In the US, the S&P 500 Index gained over 12% over the quarter reaching new all-time highs along the way. The US presidential election took place in early November, which led to an initial relief rally. Market attention quickly moved to the positive vaccine news, which continued to drive financial markets higher. Yet, the number of COVID-19 cases and hospitalisations in the US increased significantly over the quarter and several US states introduced tighter restrictions to mitigate the spread of the virus. Investors focused on the encouraging vaccine news instead and sentiment remained positive. Economic data was mixed and the recovery in the US economy appeared to be losing some momentum towards year-end amidst the renewed restrictions in activity. In late December, President Donald Trump signed a new \$900 billion fiscal package (including support for the unemployed and direct payments to households) following months of negotiations among lawmakers. This was an important development as the US has tolerated more joblessness than other major economies, even with the previous unprecedented government support.

Europe

European equity markets also advanced strongly over the quarter, with the Euro Stoxx 600 Index gaining approximately 11%. Similar to the US, COVID-19 cases remained high in Europe and the renewed lockdown restrictions were starting to have an effect on economic indicators. For example, restaurant bookings collapsed reflecting the closure of pubs and restaurants in certain regions. Electricity demand and mobility indicators also declined significantly. Yet, investors were clearly looking through these near-term challenges and were quick to price in a broader economic recovery which is expected to take place in 2021. The EU has raced to authorize COVID-19 vaccinations, with England leading the way as the first nation to pass the Pfizer-BioNTech vaccine in early December. The UK and EU finally reached a post-Brexit agreement on December 24th setting out rules and guidelines regarding trade and other political measures. The deal predominantly covers the goods-trade between the two sides but also reflects a large change to the status quo and eases some concerns of Brexit-weary investors. The UK FTSE 100 Index gained almost 11% over the quarter, roughly in line with its European peers – but still behind over the year (down 12% in 2020).

Asia

Asian equity markets also enjoyed strong performance over the quarter. Positive investor sentiment and increased risk appetite helped drive sharemarkets higher in the region. A strong Chinese economy and a weaker US dollar also helped. Macro data confirmed that China's economy is operating at levels seen before the pandemic and the country is further ahead in the recovery process compared to its Western counterparts. Strong demand for China's exports and healthy domestic spending has been driving the Chinese economy – leading to growth rates well above those seen in other countries. China is the only major economy that is expected to record positive annual economic growth in 2020, according to the latest forecasts by the International Monetary Fund (IMF).

Australia

In Australia, the S&P/ASX300 Accumulation Index gained almost 14% over the quarter – pushing the return for the 2020 calendar year into positive territory at +1.7%. Virtually all sectors gained over the quarter with Utilities and Energy leading the way. Australia's 30-year run without a recession is likely to come to an end in 2020, with many economists expecting an economic contraction for the year. However, Australia's recession is expected to be fairly mild and shallow compared to other developed economies, as Australia's efforts to control the spread of the virus have been relatively successful so far (including the latest outbreak in Sydney). Similar to other countries, monetary conditions in Australia remain very accommodative. The Reserve Bank of Australia (RBA) cut the official interest from 0.25% to 0.10% in November and market participants expect the cash rate to remain at this level for the next three years. The rate cut was accompanied by further quantitative easing (QE), with the RBA committing to purchasing \$100 billion in government bonds of 5 to 10 years maturity over the six months to April 2021. The low interest rates have already triggered a recovery in the domestic housing market, with property prices and activity on the rise again.

Fixed Income

Fixed income assets recorded mixed performance over the quarter. Australian government bond indices declined slightly, as the Australian yield curve steepened (i.e. longer-term rates increased while short-term rates declined somewhat). On the other hand, global government bond indices recorded slightly positive performance. It should be noted that global government bond yields continued to trade in a range-bound fashion and remained near their all-time lows. Credit spreads tightened significantly over the period driven by the positive vaccine news, leading to gains from credit and high yield securities. Emerging Market debt also gained meaningfully as this asset class continued to see strong inflows and spreads tightened over the quarter.

Commodities

Commodity markets broadly gained over the period. Materials and iron ore increased strongly driven by expectations for a pick-up in global demand. Gold was somewhat of an exception and recorded a flat return over the quarter. Looking at currency markets, the risk-on environment saw the US dollar weaken as the US dollar trade-weighted index hit a near three-year low. The Australian dollar gained against most major currencies.

Strategy Commentary – Q4 2020

The BlackRock Diversified ESG Stable Fund recorded a strong quarter and gained 3.10% (after fees), while its diversified benchmark gained 3.51%. This brings the Fund's total return for the 2020 calendar year to +2.82% (after fees), in line with its diversified benchmark. The Fund's exposure to Australian and international equities contributed the most to total performance in the fourth quarter of 2020, while exposures to listed infrastructure, global REITs, Emerging Market debt and credit also contributed positively. The portfolio's more defensive exposures (e.g. developed market government bonds) recorded relatively flat performance over the period.

Looking at active returns, the Fund underperformed its diversified benchmark this quarter. The underperformance in the fourth quarter of 2020 was driven by security selection in Australian equities, along with negative returns from the Fund's liquid alternative allocation (style premia). The other active return sources recorded relatively muted performance over the quarter.

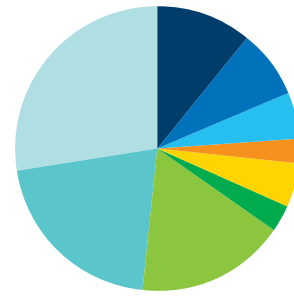
Portfolio changes

The team recently finalised its periodic in-depth review of the Fund's strategic asset allocation. This resulted in the following portfolio changes, which took place on or after 30 November 2020:

- A modest reduction in Australian Equities
- An allocation to Emerging Market Equities
- An allocation to Global High-Yield Corporate Bonds in place of Emerging Market Debt
- A reduction to Global Fixed Interest and Australian Fixed Interest in favour of Australian and US Inflation Linked Bonds
- An allocation to Gold

These changes reflect our updated assessment of the opportunities in each asset class in the context of the Fund's strategic benchmark and are consistent with BlackRock's philosophy of continuously monitoring and seeking to improve investment strategies.

Fund Allocation



	Fund	Benchmark
■ Australian Shares	10.84	11.00
■ International Shares	8.04	8.00
■ Emerging Markets Shares	5.07	5.00
■ Global REITs (unhedged)	2.97	3.00
■ Global Listed Infrastructure (unhedged)	5.01	5.00
■ Gold	2.99	3.00
■ Australian Bonds	16.99	17.00
■ International Bonds	20.73	20.00
■ Cash	27.36	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	60 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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