

# BLACKROCK DIVERSIFIED ESG STABLE FUND

# BlackRock®

## FUND UPDATE

31 August 2024

### Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Wholesale Diversified ESG Stable Fund (Gross of Fees) <sup>1</sup>	0.62	3.86	6.37	9.10	2.38	3.40	6.24
Benchmark*	0.65	4.08	6.47	9.36	2.44	3.34	5.71
Outperformance (Gross of Fees)	-0.03	-0.22	-0.11	-0.25	-0.06	0.07	0.54
BlackRock Diversified ESG Stable Fund (Net of Fees) <sup>2</sup>	0.56	3.68	5.89	8.37	1.69	2.72	5.67
Benchmark*	0.65	4.08	6.47	9.36	2.44	3.34	5.89
Outperformance (Net of Fees)	-0.09	-0.40	-0.58	-0.99	-0.75	-0.62	-0.22

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

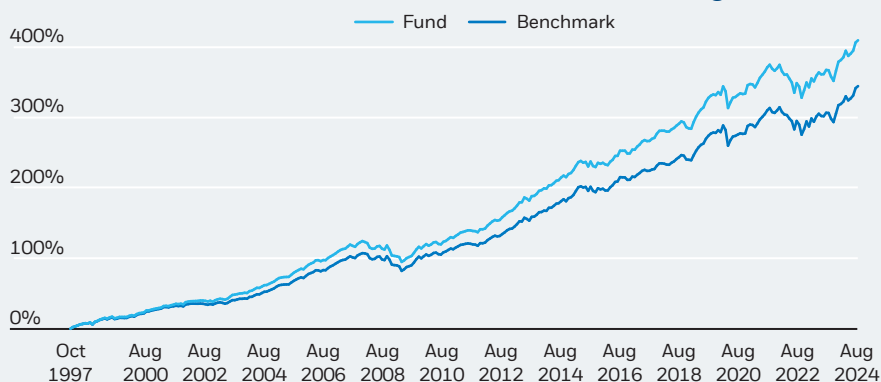
Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised.

\* The benchmark is a diversified allocation of the S&P/ASX 300 Gross Total Return Index, MSCI Australia IMI Specified ESG Screened Index, MSCI World Index 4PM (hedged in AUD), MSCI Emerging Markets Net TR 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 AusBond Credit 0+ Yr Index, 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 IndexSM.

Please note that effective from 28<sup>th</sup> March 2024 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 28<sup>th</sup> March 2024 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 August 2024



## Performance Summary

### Market Overview

Global markets experienced a tumultuous August. Risk assets sold off early in the month amid economic growth concerns and a surprise policy hike by the Bank of Japan, before recovering most of their losses by the end of the month. Global equities, as measured by the MSCI World Index (hedged), finished the month up 1.7% in Australian dollar terms, while fixed income markets, as represented by the Bloomberg Barclays Global Aggregate Index (hedged), gained 1.0% amid rising expectations of upcoming rate cuts.

### United States

In the US, the S&P 500 Index rose by 2.4% in August (in local currency terms) despite intra-month volatility, with Consumer Staples and Real Estate sectors among the best performers. The US labour market took the spotlight as unemployment jumped to nearly a three-year

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high and printed at 4.3% over July. This weaker data triggered US recession fears and contributed to the market turmoil early in August. However, equities were buoyed by US Federal Reserve (Fed) Chair, Jerome Powell's, comments at the Jackson Hole symposium where he signalled a high likelihood of a rate cut in September alongside improving US inflation data. Meanwhile, the market rally in the 'Magnificent Seven' stocks took a breather with Nvidia's corporate earnings for Q2 beating expectations by a narrower margin.

### Europe

European equities, as represented through the Euro Stoxx 50 Index, gained 1.8% in August (in local currency terms) amid investor optimism of further rate cuts by the European Central Bank (ECB). On the inflation front, Eurozone core inflation moderated to 2.8% annualised over August. However, services inflation continues to prove sticky and ECB Executive Board Member, Isabel Schnabel, noted that "policy should proceed gradually and cautiously". European corporate earnings season for Q2 also concluded over the month. Although more companies upgraded than downgraded their earnings guidance, those firms with downgrades were punished significantly while upgrades were only modestly rewarded.

In the UK, the FTSE 100 Index ended the month up 0.9% (in local currency terms). The Bank of England (BoE) implemented a first rate cut in over four years to reduce the official key rate to 5.0% in August. British headline inflation surprised to the downside over July with CPI rising by only 2.2% year-on-year – which was below both economist expectations and BoE forecasts – and driven by a decline in services and core goods prices. As a result, investors are expecting additional rate cuts this year, however BoE Governor, Andrew Bailey, has cautioned against easing monetary policy settings "too quickly or by too much".

### Asia

China's CSI 300 fell by 3.3% in August (in local currency terms). Chinese equities have underperformed most major markets over 2024, as property sector concerns and weak investor confidence remain headwinds. Despite authorities' stimulus efforts, economic data continued to disappoint with official Purchasing Managers' Index (PMI) results – which measures business activity and sentiment – reaffirming the sluggish performance of the Chinese economy. This follows relatively weak GDP growth for Q2 which printed below forecasts at 4.7% year-on-year. In particular, declining property and equity values appear to be impacting consumer consumption and has led to disinflationary pressures across the Chinese retail sector.

Japanese markets, as represented by the Nikkei 225 Index, finished August down 1.1% (in local currency terms) following its strong performance earlier in the year. The Bank of Japan's (BoJ) perceived shift in its policy framework in late July saw a sharp unwind in the yen carry trade – where investors borrow in the lower-yielding yen and invest in higher-yielding assets – and a historic three-day sell-off in equities. In particular, the central bank noted the possibility of additional rate hikes and discussed the Japanese yen as a factor in setting policy. However, BoJ Deputy Governor, Shinichi Uchida, later softened this stance and stated that the central bank won't raise rates "when financial and capital markets are unstable" – allowing stocks to partially recover losses. Meanwhile, Tokyo core inflation, a leading indicator of nationwide prices which excludes volatile fresh food costs, rose 2.4% year-on-year in August.

### Australia

The S&P/ASX 300 Accumulation Index rose 0.4% in August, with Financials and Industrials among the best performing sectors. The Reserve Bank of Australia (RBA) held interest rates steady over the period but surprised markets by highlighting that the board "seriously" considered a rate hike. Meanwhile, Australia's headline inflation printed at 3.5% year-on-year for July and continues to

track above the RBA's target band of 2-3% – prompting investors to pare back expectations for domestic rate cuts in the near future. The unemployment rate edged higher to 4.2% across the period, but this was driven more so by an increase in labour supply than a decrease in labour demand. New job creation stood at 58,200 in July, above the consensus estimate of 20,000. Australian house prices, as represented by CoreLogic Home Value Index rose 0.5% in August which marked the 19th consecutive monthly increase.

### Fixed Income

Fixed income markets saw volatility but rallied alongside a decline in government bond yields amid the prospect of upcoming central bank cuts. Over the month, the US 10-year yield fell 13 basis points, while the Australian 10-year yield declined 15 basis point to end August at 3.9% and 4.0% respectively. The fall in rates pushed bond prices higher. The Global Aggregate index (hedged) finished the month up 1.0%, while the Australian composite bond index gained 1.2% over August. Riskier parts of the fixed income market, namely corporate credit and emerging market debt indices also realised gains across the period.

### Commodities & FX

Commodity markets and energy prices were mixed over the month. Across industrial metals, Copper declined 0.1% while Iron Ore held onto slight gains and rose 0.4% despite China economic growth concerns. Oil fell by 4.1% as ample supply and sluggish Chinese demand weighed on sentiment. Meanwhile, Gold continued to trend higher and was up 2.3% amid elevated geopolitical tensions. Within currencies, the US dollar declined 1.6% over the month against its developed market peers, while the Australian dollar appreciated 3.4% against the US dollar.

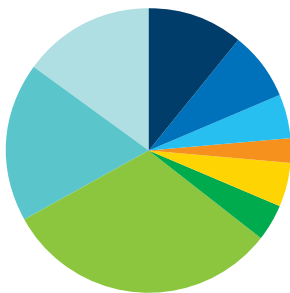
## Strategy Commentary – Aug 2024

The BlackRock Diversified ESG Stable Fund recorded a positive return of +0.56% (after fees) in August. Despite the volatility in early August driven by US employment data and Japan's interest rate hike, the belief in a soft landing for the US economy remained strong, with markets recovering on supportive economic data and positive developments later in the month.

In terms of absolute performance, growth assets delivered mixed performance. Australian Equities and Global Equities contributed while Emerging Markets Equities weighed on the fund performance. The allocation to Global Property and Global Infrastructure also added to the performance over the month. The Fund's more defensive asset classes, including Australian Fixed Income, Australian Investment Grade Corporate Bonds, Australian Inflation Linked Bonds, Global Fixed Income, US Inflation Linked Bonds and Global High Yield Corporate Bonds recorded positive returns. The defensive allocation to Gold slightly weighed on the performance across the period.

On the active front, the Fund underperformed its diversified benchmark over the month by -0.09% (after fees). Global Equities was the largest detractor in August, driven by the allocation to the systematic strategy. Global Property also weighed on the active returns. Global Listed Infrastructure and Global High Yield were roughly flat across the period. Australian Equities were the major contributor to the performance over the month led by Earnings Quality and machine learned Timing insights. Overweights in Information Technology, Industrials and Real Estate led the positive performance. Emerging Market Equities also contributed to active returns. The Fund's global macro strategy which takes overweight and underweight positions across asset classes and regions (i.e., tactical asset allocation) was flat in August but remains one of the largest contributors over the past year. Short positioning in USD vs longs in EUR, CAD (Canadian Dollar), and AUD was the main contributor while directional short position in Japanese 10yr bonds was the main detractor from performance.

## Fund Allocation



	Fund	Benchmark
■ Australian Shares	10.90	11.00
■ International Shares	7.84	8.00
■ Emerging Markets Shares	4.89	5.00
■ Global REITs (unhedged)	3.01	3.00
■ Global Listed Infrastructure (unhedged)	5.02	5.00
■ Gold	4.07	4.00
■ Australian Bonds	31.28	31.00
■ International Bonds	18.24	18.00
■ Cash	14.75	15.00

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 achieve superior investment performance through providing returns that exceed those of the composite benchmark after fees, over rolling 3-year periods. The Fund will seek to meet its investment objective while taking into account the principles of environmental, social and governance (ESG) focused investing. The composite benchmark comprises a portfolio of published indexes, approximately 70% of which represent defensive assets and 30% of which represent growth assets.

## Fund Strategy

BlackRock utilises its proprietary capital market assumptions, which produce long-term estimates of expected risk and return in each asset class. These are used to construct the Fund's strategic asset allocation (SAA) which sets the target allocations for various asset classes.

BlackRock then implements the SAA, and gains exposure to the targeted asset classes by investing in other pooled investment vehicles (Underlying Funds) which are managed by us or other entities within the BlackRock Group. These Underlying Funds have a range of active and index investment strategies. Each active strategy aims to add value over the strategic allocation, whilst controlling risk. In addition to long-only active funds, the Fund may invest in Underlying Funds with absolute return strategies to achieve the Fund's overall performance objective. BlackRock may adjust the SAA or its investment into Underlying Funds from time to time, including at periodic rebalances.

The selection of an Underlying Fund for inclusion in the strategy is the result of a comprehensive due diligence process. In selecting Underlying Funds, BlackRock takes into account ESG considerations as set out in section titled 'ESG approach within the Underlying Fund selection process' in the Fund's Product Disclosure Statement.

### Should be considered by investors who ...

- ▶ Seek a fund that invests across a range of domestic and international asset classes in seeking to maximise the benefits of global diversification.
- ▶ Seek a fund that incorporates ESG considerations in constructing and implementing its strategic asset allocation.

### Fund Details

BlackRock Wholesale Diversified ESG Stable Fund	
APIR	BGL0002AU
Fund Size	78 mil
Buy/Sell Spread	0.07%/0.07%

BlackRock Diversified ESG Stable Fund	
APIR	BAR0811AU
Management Fee	0.69% p.a.

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