

# BLACKROCK TACTICAL GROWTH FUND

# BLACKROCK®

FUND UPDATE

30 June 2021

## Investment Performance (%)

	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Tactical Growth Fund (Gross of Fees) <sup>1</sup>	1.78	6.55	9.65	21.24	11.12	11.15	-
Diversified Benchmark*	1.93	6.44	8.82	18.99	9.22	9.26	-
Outperformance (Gross of Fees)	-0.15	0.11	0.82	2.25	1.90	1.89	-
BlackRock Tactical Growth Fund (Net of Fees) <sup>2</sup>	1.73	6.34	9.20	20.23	10.20	10.20	8.16
Diversified Benchmark*	1.93	6.44	8.82	18.99	9.22	9.26	8.44
Outperformance (Net of Fees)	-0.20	-0.09	0.38	1.25	0.98	0.94	-0.28
BlackRock Balanced Fund (Net of Fees) <sup>3</sup>	1.50	6.00	8.69	19.31	9.28	9.21	6.89
Diversified Benchmark*	1.93	6.44	8.82	18.99	9.22	9.26	8.35
Outperformance (Net of Fees)	-0.43	-0.44	-0.13	0.32	0.05	-0.05	-1.45

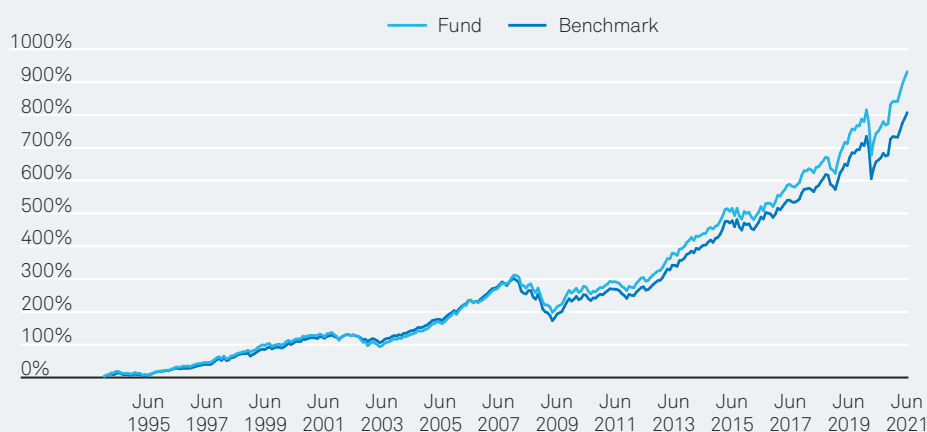
<sup>1</sup> Fund inception: 30/09/1992. <sup>2</sup> Fund inception: 30/09/1992. <sup>3</sup> Fund inception: 30/04/1992.

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

\* Please note that effective from 28 February 2019 the index representing the performance benchmark for the BlackRock Tactical Growth Fund has changed as a result of the latest strategic asset allocation review. Global credit, as measured by the Bloomberg Barclays Global Aggregate Corporate Index (hedged in AUD) was added to the index. This is reflected in the historical benchmark performance, with returns prior to 28 February 2019 reflecting those of the old benchmark while returns from 28 February reflect those of the updated benchmark.

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. The benchmark is a diversified allocation of the S&P/ASX 300 Total Return Index, MSCI World ex Australia Index (hedged and unhedged in AUD with net dividends reinvested), MSCI Emerging Markets IMI ex Tobacco ex Controversial ex Nuclear Weapons Net TR Index (Unhedged in AUD), FTSE Developed Core Infrastructure 50/50 Net Tax Index (Unhedged in AUD), FTSE EPRA/NAREIT Developed Dividend+ Net Index (Unhedged in AUD), Bloomberg AusBond Composite 0+ Yr Index<sup>SM</sup>, Bloomberg Barclays Global Aggregate 500 Index (Hedged in AUD), Bloomberg Barclays Global Aggregate Corporate Index (hedged in AUD), J.P. Morgan EMBI Global Core Index (Hedged in AUD) and the Bloomberg AusBond Bank Bill Index<sup>SM</sup>.

## Cumulative Performance (Gross of fees) to 30 June 2021



## Performance Summary

### 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.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

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 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 bottle necks 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 Tactical Growth Fund recorded a strong quarter and gained +6.34% (after fees). This brings the Fund's year-to-date return to +9.21% (after fees), which is +0.38% ahead of its strategic benchmark. 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, inflation-linked bonds and other fixed income securities also contributed positively but to a lesser extent.

Looking at active returns, the Fund performed roughly in line with its diversified benchmark over the quarter. 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 and fixed income was also additive, along with positive contribution from tactical asset allocation decisions. On the flipside, stock selection in international equities (mainly in Asia) detracted and offset active returns over the period.

### Outlook and Positioning

While certain regions in Australia are back in lockdown, restrictions are being lifted in many other countries and the global economic recovery is broadening. The restart in economic activity is not a traditional business cycle recovery and we see a wide range of potential macro outcomes going forward. Fiscal stimulus and easy monetary policy have provided a bridge through the pandemic. We have estimated the US has seen more than four times the stimulus of the GFC for less than one quarter the economic shock. More relaxed attitudes toward debt and deficits are a major shift in government and central bank policies. The new policy paradigms mean many central banks are now attempting to overshoot inflation targets to make up for past misses. Yet, markets have not yet bought the narrative and are pricing in a more rapid lift-off in interest rates. This mismatch and resulting uncertainty could stoke volatility.

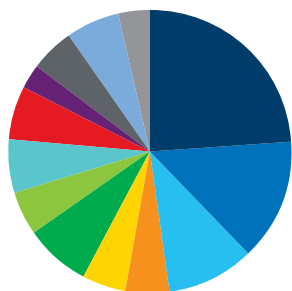
We expect a higher inflation regime in the medium term, as a result of a more muted monetary response than in the past, greater deployment of fiscal stimulus and other structural issues such as supply-chain diversification. We see any bond yield rises driven primarily by inflation, rather than pro-active policy hikes. The portfolio's allocation to inflation-linked bonds and gold addresses this belief and is expected to better protect the real value of the portfolio should this scenario play out.

We are still moderately pro-risk (despite the high equity valuations) and see the negative real, or inflation-adjusted, bond yields to be supportive for equities. Whilst equities are no longer cheap, the positive backdrop for equities (especially international equities) remains intact in our view. Global economic activity is robust, the outlook for corporate earnings have improved and there is ongoing accommodative central bank policy domestically and abroad.

We see the potential for cyclical shares and regions to benefit from a broadening restart and are currently overweight European equities on a tactical basis. Even if government bond yields remain low, we expect yields to move higher in the near term. Hence, we maintain an underweight position to developed market (DM) government bonds relative to our strategic benchmark – specifically concentrated on European Government Bonds.

Although the portfolio's growth/defensive split is slightly tilted with an overweight to developed market equities and underweight to interest rates (relative to our strategic benchmark), the team has derivative structures in place that provide optionality and would reduce the growth/defensive split in case of a market correction. A significant sell-off in markets is not our base-case, however we are mindful that positioning and optimism is relatively high and a correction in markets remains a risk.

## Benchmark Allocation



Asset Class	Benchmark Weight (%)	Market Performance	Contribution to Benchmark Return
Australian Shares	24.00	8.46	2.03
International Shares – unhedged	14.00	9.08	1.27
International Shares – hedged	10.00	7.50	0.75
International Infrastructure	5.00	4.23	0.21
International Property	5.00	10.60	0.53
Emerging Market Equity	7.50	7.14	0.54
Australian Bonds	5.00	1.54	0.08
Aust. Inflation-Linked Bonds	6.00	3.61	0.22
US Inflation-Linked Bonds	6.00	3.70	0.22
Emerging Market Debt	3.00	4.53	0.14
Global High Yield	5.00	2.40	0.12
Gold	6.00	5.49	0.33
Cash	3.50	0.01	0.00

**Total Benchmark Return: 6.44**

## About the Fund

### Investment Objective

The investment objective of the Fund aims to outperform peer performance consistent with a “growth” orientated investment strategy encompassing:

- ▶ a broadly diversified exposure to Australian and international assets
- ▶ active asset allocation, security selection and risk management
- ▶ flexibility to deviate meaningfully from the strategic asset allocation to help manage total portfolio risk

The Fund aims to outperform its benchmark indices over a 5-year rolling period before fees.

### Fund Strategy

The investment strategy of the Funds is to provide investors with a diversified exposure to the best investment teams and 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 consistent with a “growth” oriented fund; and
2. Enhancing the returns of the Fund relative to the strategic benchmark to the maximum extent possible by utilising investment teams, strategies and techniques from BlackRock’s resources around the globe subject to a risk budgeting framework.

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

- ▶ Seek a fund which aims to provide a combination of capital growth and income.
- ▶ Seek a fund that is actively managed within a risk controlled framework to provide diversified exposure to multiple asset classes with a single layer of fees.
- ▶ Seek a fund that evolves to incorporate ‘Best of BlackRock’ investment insights.

### Fund Details

BlackRock Tactical Growth Fund	
APIR	PWA0822AU
Fund Size	523 mil
Buy/Sell Spread	0.175%/0.175%
Management Fee	0.85% p.a.

BlackRock Balanced Fund	
APIR	PWA0013AU
Management Fee	1.455% p.a.

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