

# BLACKROCK TACTICAL GROWTH FUND

# BLACKROCK®

FUND UPDATE

31 July 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>	1.84	5.66	11.66	21.63	11.36	10.76	-
Diversified Benchmark*	1.94	5.67	10.93	20.22	9.41	8.96	-
Outperformance (Gross of Fees)	-0.10	0.00	0.73	1.41	1.95	1.81	-
BlackRock Tactical Growth Fund (Net of Fees) <sup>2</sup>	1.77	5.46	11.13	20.63	10.43	9.82	8.20
Diversified Benchmark*	1.94	5.67	10.93	20.22	9.41	8.96	8.49
Outperformance (Net of Fees)	-0.17	-0.20	0.20	0.41	1.03	0.87	-0.29
BlackRock Balanced Fund (Net of Fees) <sup>3</sup>	1.77	5.17	10.61	19.76	9.54	8.85	6.94
Diversified Benchmark*	1.94	5.67	10.93	20.22	9.41	8.96	8.39
Outperformance (Net of Fees)	-0.17	-0.49	-0.32	-0.46	0.13	-0.11	-1.45

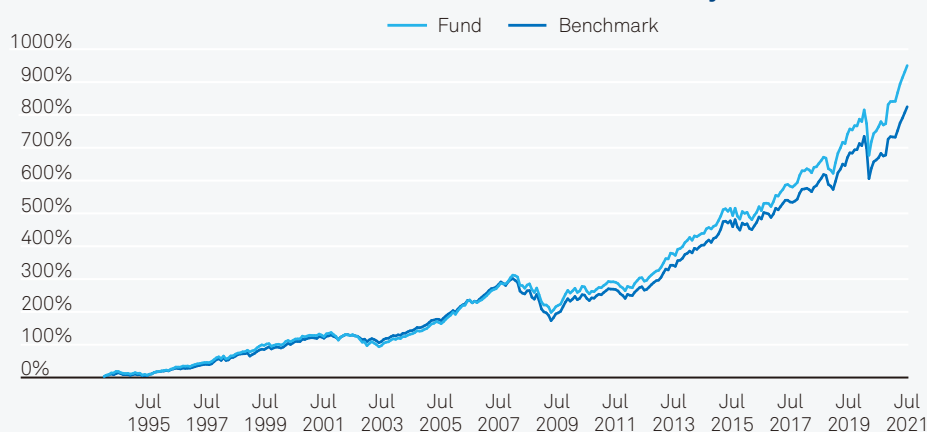
<sup>1</sup> Fund inception: 30/09/1992. <sup>2</sup> Fund inception: 30/09/1992. <sup>3</sup> Fund inception: 30/04/1992.

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 31 July 2021



## Performance Summary

### Market Overview

The global economic recovery continued in July with steady progress in the COVID-19 vaccine rollout, a pick-up in mobility indicators (especially in Europe) and ongoing support from a monetary and fiscal policy perspective. However, it was a more volatile month for financial markets due to increasing concerns around rising cases of the more transmittable Delta variant and signs of a peak in economic growth, especially in the US.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

Despite the volatility, developed market equities outperformed their emerging market counterparts in July. The positive performance was led by the United States (US) underpinned by a strong corporate earnings season and reassuring central bank comments. Within emerging market (EM) equities, China was a drag on markets as the government tightened regulation in a coordinated crackdown across sectors - introducing further uncertainty in the region.

Within Fixed Income, government bonds recorded positive performance in July, led by Australia, US and Germany. The Australian dollar depreciated against most currencies and in particular the US dollar.

## US

US equities gained 2.4% over the month, on the back of a positive earnings season. Earnings delivery has been strong with a record number of companies beating both sales and earnings estimates powered by encouraging corporate guidance.

The reopening of the US economy and sharp rebound in activity has led to a spike in inflation. The headline Consumer price index (CPI) surprised to the upside for the fourth consecutive month, showing inflation of +5.4% year on year in June. Federal Reserve (Fed) Chairman Powell continued to reiterate the belief that the inflation spike is transitory in nature, as supply constraints and a rebound in travel-sensitive components of CPI contributed to much of the increase. The July FOMC meeting acknowledged progress towards the Fed's goals of maximum employment and price stability, though stated that their goal of "substantial further progress" had not yet been met. This in turn supported government bonds and helped bond yields stay low in July, despite the inflation spike.

With progress on vaccinations and strong policy support, indicators of economic activity and employment have strengthened in the US. The latest jobs report showed a significant increase in the number of jobs created, led by strong gains in some of the hardest-hit sectors such as leisure and hospitality. However, the unemployment rate ticked up slightly to 5.9% as the number of job seekers increased as well.

## Europe

European equities gained under 1% in July, even though companies reported strong earnings results. The spread of the Delta Covid-19 variant caused some concerns among investors, but governments have been hesitant to reimpose strict lockdown measures and are instead relying on vaccination progress to curb the increase in severe cases and fatalities.

The European Central Bank (ECB) revised its forward guidance on interest rate policy, saying the bank will maintain its ultra-loose policy until it has sufficient evidence that inflation can sustainably hit its goal of 2%. The bank raised its inflation target from "below, but close to 2%" to "2%" as July saw the ECB publish the outcome of the ECB Strategy Review, the first since 2003. The inflation target was revised slightly higher to a 'symmetric 2% inflation target over the medium term'. A reformulated and strengthened forward guidance on interest rates confirmed the ECB's very accommodative policy stance. The final June Euro area headline inflation print increased 0.3% to 1.9% year on year with core inflation at 0.9% year on year.

From an economic data perspective, GDP rebounded strongly in the second quarter and composite purchasing market indices (PMI's) posted a reading of 60.6 which was a record high (a reading above 50 represents an expansion), with Germany leading the expansion. European growth continues to be driven by the manufacturing sector while the sequential improvement in PMIs is coming from services as restrictions are being lifted. There are continued signs that firms are struggling to meet the growth in demand with backlogs rising and supplier delivery times still close to record levels.

In the UK, the FTSE 100 Index finished July roughly flat. Concerns around the Delta variant have delayed the easing of lockdown measures. However, the rapid rollout of vaccines has meant that hospitalizations have remained relatively low. On the monetary policy front, the Bank of England continued its dovish monetary policy stance through continued low interest rates. Economic data showed a mixed picture as the composite PMI for July

contracted, signalling the slowest rate of private sector expansion in four months. UK's service sector and manufacturing production experienced a slowdown in recovery amid supply shortages. UK's CPI rose to 2.3% in June year on year, causing some concern amidst the monetary policy committee at the Bank of England.

## Asia

Within Asian markets, attention remained on China with further evidence of a slowdown in economic activity. The regulatory crackdown in China in the second half of July added to market worries. The increased crackdown on big tech companies and private education is part of the government's efforts to mitigate social issues and lower the cost of living. Chinese activity data disappointed but spillovers have been limited so far, with macro data remaining resilient in both Europe and the US. China's State Council surprisingly implemented a cut to the Required Reserve Ratio (RRR) of 0.5%, raising concerns about Chinese economic growth. Nonetheless, Chinese Q2 2021 GDP came in slightly stronger than expected at 1.3% for the quarter.

Asian equities mostly closed lower over the month. 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. In Emerging Asia, the Delta variant surge is stretching the medical infrastructure especially in countries such as Indonesia, Singapore, Malaysia and Thailand (where cases and mortality rates are high). Rising inflation was another concern in some Asian countries amidst rising raw material prices and production bottle necks to meet the growing global demand for goods and services.

Japanese equities declined over 5% in July. Concerns around the Delta variant caused Japan to impose new restrictions. The Japanese government imposed a fourth State of Emergency (SoE) in Tokyo, only one month after the last SoE was lifted and right before the Olympic games. The SoE covered the entire duration of the Olympics. Policy rates were kept unchanged during the July Bank of Japan (BOJ) meeting, in line with market expectations.

## Australia

In Australia, the S&P/ASX300 Accumulation Index gained 1.1% over the month, despite the recent COVID outbreak. Half of Australia's population was in lockdown (as of July month-end) against a backdrop of a relatively low rate of vaccinations and the Government's low tolerance for case numbers. Mobility restrictions are expected to translate into fewer firms providing earnings guidance, put pressure on corporate margins and act as a headwind for third quarter GDP (after a better-than-expected figures in the first two quarters). CPI for Q2 came in at 0.8%, which saw CPI year on year rise to 3.8%. The Reserve Bank of Australia (RBA) kept interest rates unchanged, as expected, but shifted its tone to be slightly less dovish. The RBA announced a taper of its weekly bond purchases from \$A5bn/week to \$A4bn/week "until at least mid-November". The RBA also tweaked its forward guidance on the cash rate from "2024 at the earliest" to "not be met before 2024".

## Fixed Income

July was marked by a widespread rally in global rates. There were several themes affecting global fixed income markets over the month such as the growing concerns over the Delta variant, the prospect of slower economic growth ahead, central bank rhetoric, alongside more technical factors (e.g. strong demand from institutional investors looking to rebalance). Inflation-linked bonds in the US and Australia continued to outperform, with the Australian inflation-linked bond index up 2.6% and US TIPS up 2.7% in July. Longer-term bond prices increased and pushed the Bloomberg Australian composite bond index 1.8% higher. The Bloomberg Global Aggregate Bond Index (hedged in AUD) also gained over 1.2% in July. In the US, bond demand has been unusually strong due to a combination of Fed purchases and institutions looking to rebalance, following a strong period of equity gains.

Credit spreads continued to tighten, and both investment Grade and High Yield indices continued to gain over the month. Local Currency Emerging market debt also performed well and experienced positive performance in July.

## Commodities & FX

Commodities continued to perform strongly as an asset class in July. The industrial metal of copper led the way, but precious metals including gold have also been supported by a continued rise in inflation and declines in real yields that have made them more attractive as an inflation hedge. Energy prices continued to trend upward driven by strong demand amidst tight supply. Within FX, the US dollar saw mixed performance as market participants reassessed downward the global economic recovery because of the spreading Delta variant. The Australian dollar underperformed all major currencies, particularly the US dollar.

## Strategy Commentary – July 2021

The BlackRock Tactical Growth Fund gained 1.77% in July (after fees). This brings the Fund's year-to-date return to +11.13% (after fees), which is +0.20% ahead of its strategic benchmark. Virtually all asset classes contributed positively to the Fund's overall return this month. Growth assets, such as Australian and international equities, global REITs and infrastructure had a particularly strong month and drove the Fund's overall return. The portfolio's more defensive assets, such as gold, inflation-linked bonds and other fixed income securities also contributed meaningfully to overall performance. Emerging market equities was the only asset class that detracted in July.

Looking at active returns, the Fund slightly underperformed its diversified benchmark in July. Tactical asset allocation decisions were the main driver of the small underperformance, while active security selection within asset classes was either flat or slightly positive. The Fund had a tactical underweight position to global bonds relative to its strategic benchmark (especially in the US and Germany), which weighed on performance in July as global bonds rallied. The Fund had a small overweight position to Chinese and Japanese equities which also detracted. Slowing growth data out of China, along with the recently announced crackdown on certain Chinese private sectors weighed on performance in the region.

## Outlook and Positioning

While several 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 saw some of this in July. Additionally, there is still significant uncertainty around the virus itself. The Delta variant has seen case numbers rise globally and many countries are grappling with the best course of action in relation to mobility restrictions.

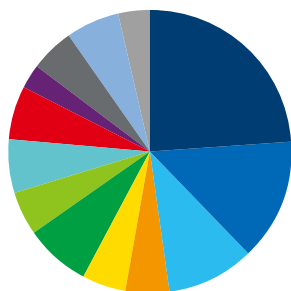
We expect a moderately higher inflation regime in the medium term, as a result of a more muted monetary response than in the past, greater deployment of fiscal stimulus and other structural issues such as supply-chain diversification. We see any bond yield rises driven primarily by inflation, rather 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 high equity valuations) and see 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 historically 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	1.11	0.27
International Shares – unhedged	14.00	4.03	0.56
International Shares – hedged	10.00	1.77	0.18
International Infrastructure	5.00	4.17	0.21
International Property	5.00	6.16	0.31
Emerging Market Equity	7.50	-4.11	-0.31
Australian Bonds	5.00	1.76	0.09
Aust. Inflation-Linked Bonds	6.00	2.59	0.16
US Inflation-Linked Bonds	6.00	2.86	0.17
Emerging Market Debt	3.00	0.43	0.01
Global High Yield	5.00	0.39	0.02
Gold	6.00	4.64	0.28
Cash	3.50	0.00	0.00

**Total Benchmark Return: 1.94**

## 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	507 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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