# BLACKROCK TACTICAL GROWTH FUND

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**FUND UPDATE** **31 August 2021**

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

## Investment Performance (%)

| | 1 Mth | 3 Mths | CYTD | 1 Yr | 3 Yrs | 5 Yrs | Inc |
|---|---|---|---|---|---|---|---|
| BlackRock Tactical Growth Fund (Gross of Fees)[1] | 1.71 | 5.42 | 13.57 | 21.48 | 11.48 | 11.11 | - |
| Diversified Benchmark* | 1.81 | 5.79 | 12.94 | 20.29 | 9.44 | 9.41 | - |
| Outperformance (Gross of Fees) | -0.10 | -0.37 | 0.63 | 1.18 | 2.03 | 1.69 | - |
| BlackRock Tactical Growth Fund (Net of Fees)[2] | 1.64 | 5.22 | 12.95 | 20.47 | 10.55 | 10.16 | 8.24 |
| Diversified Benchmark* | 1.81 | 5.79 | 12.94 | 20.29 | 9.44 | 9.41 | 8.53 |
| Outperformance (Net of Fees) | -0.17 | -0.57 | 0.01 | 0.18 | 1.11 | 0.75 | -0.29 |
| BlackRock Balanced Fund (Net of Fees)[3] | 1.63 | 4.99 | 12.42 | 19.66 | 9.69 | 9.21 | 6.98 |
| Diversified Benchmark^ | 1.81 | 5.79 | 12.94 | 20.29 | 9.44 | 9.41 | 8.43 |
| Outperformance (Net of Fees) | -0.18 | -0.81 | -0.52 | -0.63 | 0.25 | -0.21 | -1.46 |

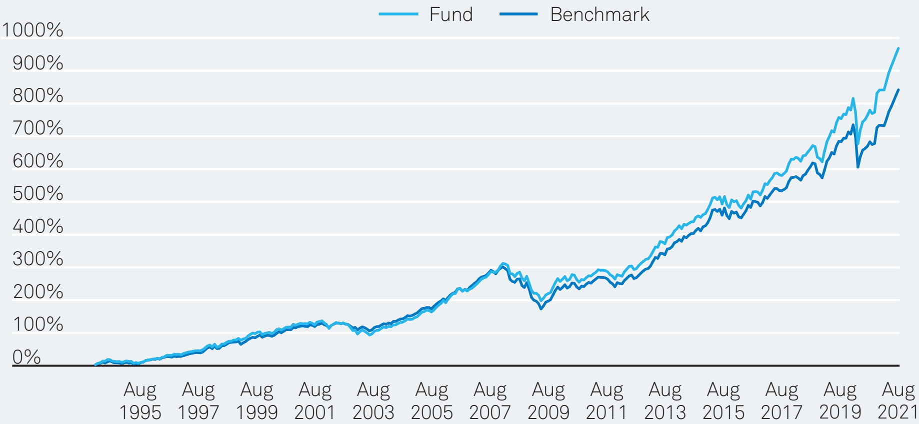
[1] Fund inception: 30/09/1992. [2] Fund inception: 30/09/1992. [3] Fund inception: 30/04/1992.

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℠, 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℠.

## Cumulative Performance (Gross of fees) to 31 August 2021




## Performance Summary

### Market Overview

August was another positive month for most financial markets. Risk sentiment stayed steady on reinforcements around accommodative fiscal and monetary support in the near term, strong economic data, and widespread global immunisations. Concerns around the more transmittable COVID-19 delta strain and plateauing economic growth did not materially deter risk appetite. Key risk-on assets such as equities and high yield credit experienced a strong rally in August. Defensive asset classes such as global fixed income were mostly flat, while commodities including energy declined over the month.

Global equities (hedged in AUD) gained over 2.5% in August, which brings year-to-date performance to almost 20%. Regionally, developed market equities continued to outperform their emerging market counterparts, led by the US. Corporate earnings results were encouraging, with several large US and European companies reporting strong profits and announcing large dividend pay-outs. Japanese equities bounced back strongly in August, following declines in the previous months. Emerging market equities initially stalled amidst virus concerns and a tougher stance from Chinese regulators but rebounded to finish the month slightly higher.

**US**

US equities represented through the S&P 500 Index gained over 3% in August. Financials was the top performing sector in the US, with Energy and Industrials the worst performers. Emphasis on an upbeat US earnings season, persistent fiscal expansion and a patient Federal Reserve created a favourable backdrop for share markets. While the US economy has been growing strongly for much of this year, recent data signalled a potential slowing of momentum. The rate of US GDP growth appears to have peaked, and the impacts of the delta variant have spurred concerns of a fading recovery.

Federal Reserve Chair Jerome Powell gave a dovish speech at the Jackson Hole 2021 meeting in end August that diffused concerns around immediate inflation led intervention and an imminent tapering of asset purchases – ultimately resulting in a continuation of the highly accommodative stance. Chair Powell made the case for the current high inflation rates being transitory, emphasizing the recent supply shocks which are expected to dissipate in the near future. While inflation data moderated somewhat relative to preceding months, higher wages and elevated economic growth could mean that inflation may remain elevated going forward. After a strong jobs report in July, the August report (which was released in early September) showed a surprisingly softer print, with implications on monetary policy keenly watched. The flash PMI's similarly pointed to sagging momentum as the composite PMI declined to 55.4. On the fiscal side, US President Joe Biden progressed an additional US$550 billion of new spending as a part of the bipartisan infrastructure package that was passed in the US Senate.

**Europe**

European equity markets represented through the Euro Stoxx 600 Index gained over 2.5% in August. The second quarter earnings season saw results coming in ahead of consensus expectations, which were elevated after strong first quarter earnings releases.

Within the European block, COVID-19 cases climbed albeit with lower hospitalisations and mortality; mobility did not suffer as most governments were reluctant to impose new restrictions. Whilst the eurozone economy contracted in the first quarter, the second quarter seasonally adjusted GDP for Eurozone has shown growth of 2% on a quarter on quarter basis. The flash CPI estimate for August came in far stronger-than-expected at 3.0% and was well above consensus sparking hawkish comments from the European Central bank (ECB). The Euro Area composite PMI fell in August, with German manufacturing responsible for the decline while peripheral Europe showed marginal improvements.

The UK equity market as measured by the FTSE Index gained north of 2%. Since the last UK COVID related restrictions were relaxed in July, new coronavirus cases spiked throughout August. However, the hospitalization rate remained stable amidst a highly vaccinated population. Monthly economic data suggested the UK is possibly past peak growth as soft indicators reported static or declining figures. For example, UK's Composite PMI dropped in August, but remained firmly in expansionary territory. UK inflation decelerated to 2.0% year on year undershooting an expected figure of 2.3%. During its August meeting, the Bank of England kept its stimulus running at full speed, even though it took a slight hawkish turn by warning that near term inflation pressures would likely lead to 'some modest tightening of monetary policy'.

**Asia**

Asian equities also recorded positive performance in August, reversing some of the negative performance from previous months. Headlines continued to focus on China from last month's coordinated policy crackdown on certain sectors. China continued to follow a zero-tolerance/low-tolerance policy for new COVID-19 cases and has reimposed lockdown restrictions despite relatively low (reported) case numbers. This has contributed to significant downward revisions for China's 2021 economic growth, which is expected to face a more broad-based period of weakness as other measures, such as credit growth, also deteriorated. Despite the People's Bank of China (PBOC) pivot to a more dovish stance through cutting the Reserve Require Ratio (RRR) by 0.5%, the consensus is that further easing may be required. Chinese stocks were pushed higher by a statement from the PBOC that it will use its monetary policy tools to support the rural sector, with measures including the reserve requirement ratio, along with relending and rediscounting measures. Chinese equities finished August marginally higher, but underperformed their global counterparts.

Japanese equities reversed their losses from previous months and gained over 3% in August. As new COVID-19 cases appear to have peaked and two important domestic elections approach, investor interest in the region has increased again. Economic data coming out of Japan was largely positive in August, although a large degree of uncertainty remains amidst the ongoing high number of Covid-19 cases. Second quarter GDP printed stronger than consensus at 1.3%, despite the heavy restrictions on services activities in Japan.

**Australia**

In Australia, the S&P/ASX300 Accumulation Index gained 2.6% in the month of August, in line with other developed markets, despite a large part of the Australian population being in lockdown. The rally in domestic equities was supported by ongoing accommodative monetary conditions from the Reserve Bank of Australia (RBA) and an improving vaccine rollout. The RBA signaled their desire to move away from the ultra-loose monetary policy that was designed for the uncertainty of the pandemic. Despite the lockdown restrictions in parts of Australia, macro data appeared resilient and relatively positive. For example, Australia's GDP grew 0.7% quarter on quarter in Q2 2021, beating expectations. The upside surprise reflected a larger-than-expected boost from inventories and dwelling investment. The Markit composite PMI index declined slightly by 1.7 points to 43.5 as both manufacturing and services scores dipped. Economists downgraded the Australian economic outlook and pushed back the start of a potential RBA tightening cycle. Retail sales declined in August, largely in line with expectations, while aggregate figures for the local labour market remained upbeat.

**Fixed Income**

Volatility in Fixed Income markets receded from previous months and most developed market bond indices recorded relatively muted performance in August. After declining somewhat over the course of June and July, developed market government bond yields moved generally sideways in August. Most global government bond indices remain in negative territory year-to-date and have not fully recovered from their losses in the first quarter when the reflation theme was at its height. In riskier parts of the fixed income market, emerging markets debt and Asian credit enjoyed a positive month. High yield markets also performed well and outperformed investment grade credit in total return terms.

**Commodities & FX**

Major commodity prices including oil and copper declined as concerns around the Delta variant lingered and caution over slowing demand in China outweighed the supply shocks on the production side. Brent crude was down 4.4% in August and WTI crude dropped 7.4%. Similarly, other metals also suffered. In terms of Gold, strong economic recoveries and the prospect of rising interest rates have dimmed the appeal of the precious metal. In terms of currency moves, the Australian dollar was under pressure in the month because of the downgrade to the Australian economic outlook amid the COVID-19 delta outbreaks.

## Strategy Commentary – August 2021

The BlackRock Tactical Growth Fund gained 1.64% in August (after fees). This brings the Fund's year-to-date return to +12.95% (after fees), in line with its composite benchmark. Growth assets, including Australian and international equities and REITs continued to advance and drove the Fund's overall return in August. The Fund's more defensive asset classes (e.g. government bonds, inflation-linked bonds and gold) were relatively flat over the period.

Looking at active returns, the Fund slightly underperformed its diversified benchmark in August. Stock selection in Australian equities was the key driver of the underperformance, while tactical asset allocation decisions generated positive active returns. Within Australian equities, stock selection in the Consumer Discretionary sector detracted as underweight positions in diversified consumer services and hotels, restaurants and leisure hurt. Underweight positions in Australian food and staples retailers also detracted. On the positive side, tactical asset allocation decisions added to returns this month. The Fund had a tactical underweight position to global bonds (especially in the US and Germany), which benefitted performance in August. The Fund also had a small overweight position to Japanese and European equities which worked well.

## Outlook and Positioning

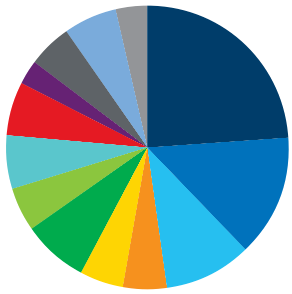
While several regions in Australia are still in lockdown, restrictions have been lifted in many other countries and the global economic recovery is broadening. Several economic indicators are back at pre-Covid levels and corporate earnings results have been strong in recent quarters. However, the positive economic momentum seems to be slowing somewhat. A combination of longer-than-expected supply chain disruptions and the spread of the Delta variant have placed downward pressure on near-term growth momentum and upward pressure on inflation. Tighter labour markets, coupled with firmer price increases, have encouraged central banks around the world to make a gradual but definite move towards a less accommodative policy stance (e.g. slowing the pace of asset purchases). We feel that this constellation of macro drivers is likely to be a more challenging environment for both risk assets and fixed income. As such, we modestly reduced the size of our equity overweight and recently increased the size of our underweight fixed income positions. Regionally, European inflation is in the process of catching up to US price pressures – consequently we have used long-dated German government bonds as the primary source of our fixed income underweight.

The positive backdrop for equities (especially international equities) remains intact in our view. Global economic activity is robust, the outlook for corporate earnings is encouraging and financial conditions remain very accommodative – resulting in an overall equity exposure that is close to our strategic benchmark. We currently prefer to take risk at a sector and country level (e.g. overweight Spanish, Italian and Japanese equities).

Even if government bond yields remain historically low, we expect yields to move somewhat 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.

We have derivative structures in place that provide optionality and would reduce the portfolio's 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 | 2.61 | 0.63 |
| International Shares – unhedged | 14.00 | 3.10 | 0.43 |
| International Shares – hedged | 10.00 | 2.68 | 0.27 |
| International Infrastructure | 5.00 | 2.34 | 0.12 |
| International Property | 5.00 | 1.84 | 0.09 |
| Emerging Market Equity | 7.50 | 3.01 | 0.23 |
| Australian Bonds | 5.00 | 0.09 | 0.00 |
| Aust. Inflation-Linked Bonds | 6.00 | -0.33 | -0.02 |
| US Inflation-Linked Bonds | 6.00 | -0.23 | -0.01 |
| Emerging Market Debt | 3.00 | 1.05 | 0.03 |
| Global High Yield | 5.00 | 0.46 | 0.02 |
| Gold | 6.00 | 0.34 | 0.02 |
| Cash | 3.50 | 0.00 | 0.00 |

**Total Benchmark Return: 1.81**

# 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 | 518 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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