

BLACKROCK TACTICAL GROWTH FUND

BLACKROCK®

FUND UPDATE

30 September 2021

Investment Performance (%)

	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Tactical Growth Fund (Gross of Fees) ¹	-1.75	1.77	11.58	20.77	10.96	10.76	
Diversified Benchmark*	-2.25	1.45	10.40	18.83	8.74	9.01	-
Outperformance (Gross of Fees)	0.50	0.32	1.19	1.95	2.22	1.76	-
BlackRock Tactical Growth Fund (Net of Fees) ²	-1.82	1.55	10.90	19.78	10.04	9.82	8.14
Diversified Benchmark*	-2.25	1.45	10.40	18.83	8.74	9.01	8.42
Outperformance (Net of Fees)	0.43	0.10	0.50	0.95	1.30	0.82	-0.27
BlackRock Balanced Fund (Net of Fees) ³	-1.82	1.55	10.38	19.03	9.21	8.89	6.89
Diversified Benchmark*	-2.25	1.45	10.40	18.83	8.74	9.01	8.32
Outperformance (Net of Fees)	0.43	0.10	-0.02	0.20	0.47	-0.12	-1.44

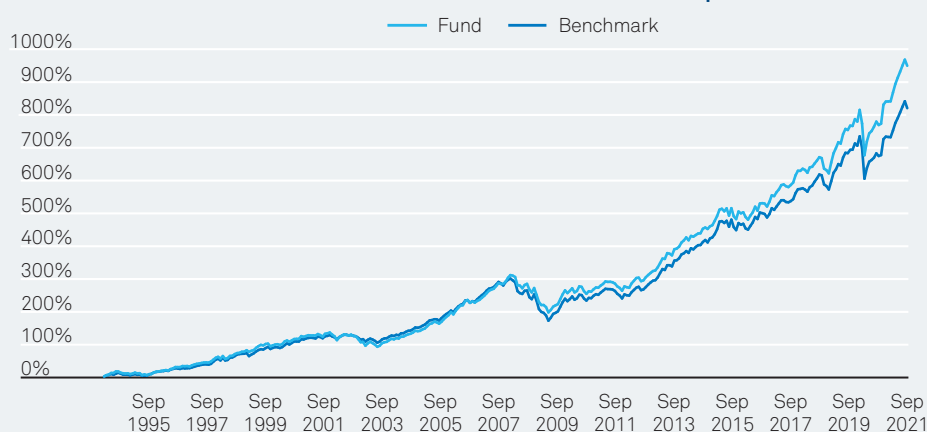
¹ Fund inception: 30/09/1992. ² Fund inception: 30/09/1992. ³ Fund inception: 30/04/1992.

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 IndexSM, 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 IndexSM.

Cumulative Performance (Gross of fees) to 30 September 2021



Performance Summary

Market Overview

The third quarter of the year was volatile for most financial markets. Whilst it started well, some gains were erased in September when global equities and fixed income assets retreated. Risk appetite deteriorated towards quarter-end due to increasing concerns such as China's growth slowdown, the energy crisis, inflation and potential tapering by global central banks.

Developed market equities finished the quarter slightly positive after a moderate correction in September. Emerging markets were down on the quarter, weighed by China as the third quarter of the year was underscored by broadly negative news; between regulatory crackdown on select

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

sectors to fears around a potential default on a large Chinese property developer and the contagion effect of the same.

Global sovereign bond yields rose considerably in September on monetary policy normalization speculation, as the Federal Reserve's (Fed) further guidance on the central bank's outlook saw a hawkish direction. Several other central banks have followed suit and hiked their interest rates, including the Reserve Bank of New Zealand (RBNZ) in early October. Energy prices continued to charge ahead as supply constraints drove prices to new highs, further exacerbating inflationary pressures globally.

United States

US equities represented through the S&P 500 Index gained 0.6% over the quarter, despite September's sell-off when the S&P 500 index declined 4.7%. Higher yields, concerns around slowing economic growth and developments in China all weighed on risk sentiment over the month. In terms of sectoral moves, technology stocks underperformed whereas banks benefited from higher yields, and energy prices drove sensitive sectors higher.

On the policy front and considering fresh inflationary pressures, at the recent September Federal Open Market Committee (FOMC) meeting, the Fed struck a slightly hawkish tone when they signaled their intention to announce a tapering of asset purchases in November, with broad support for a timeline which would complete the process by mid-2022. The shift comes in the context of a revised real GDP growth to the downside whereas inflation has risen.

The August nonfarm payroll report surprised negatively, as the headline number printed well below the consensus. A significant factor for the underwhelming numbers was the decline in reopening-sensitive categories such as airline fares and hotel rates. Both retracted significantly as concerns around the Delta variant dimmed traveling prospects.

Europe

European equity markets represented through the Euro Stoxx 600 Index closed modestly flat over the quarter. The energy sector was one of the strongest performers, with information technology also seeing a robust advance.

In terms of policy, the European Central Bank (ECB) decided to reduce the pace of asset purchases under its pandemic emergency purchase program (PEPP) for the fourth quarter, as expected. The ECB upgraded its growth and inflation forecast for 2021, however in contrast to global peers, the narrative was that the rise in inflation is mostly transitory and that it would tolerate any moderate and transitory overshoot of its 2% inflation target. Preliminary data for September Euro Area inflation brought Core YoY inflation to 1.9%, in line with expectations.

Macro data was mixed over the quarter, but the positive momentum appears to be slowing. Business activity in the eurozone disappointed versus expectations, especially in September. Purchasing managers' index (PMI) readings showed a broad-based loss of momentum but remained in expansionary territory. Growth in the service sector moderated more quickly than expected in September as the reopening-driven recovery appeared to be fading. On the political front, Germany held a general election which saw the Social democrats take the largest share of votes and coalition talks are now under way over the formation of a new government.

Within the UK, equity markets finished the third quarter with positive gains of almost 2%, as measured by the FTSE index. September surprised to the upside with strong data prints showing the UK rebounding following the easing of coronavirus restrictions. The UK reported a final Q2 GDP growth of 5.5%, well ahead of market estimates. However, the Flash UK Composite PMI dropped in September, below expectations, but remained in expansionary territory. Despite job growth accelerating, wage growth has also increased. Continued supply chain disruptions and difficulty in sourcing raw materials contribute to a more challenging environment for businesses and UK business confidence gauges have eased to lows.

The Bank of England (BoE) raised the prospect of hiking interest rates to as soon as November in order to contain inflation which has surged in recent months. Spiking gas costs have exacerbated the situation and brought turmoil to the UK in September and is seen as a significant risk.

Asia

Asian equities recorded mixed performances over the quarter, partly driven by the differentiated pace of the vaccine rollout and mobility restrictions. Negative news regarding China's changing regulatory environment designed to achieve long run 'common prosperity' was another key driver of market returns in the region. China's education and technology sectors sold off sharply over the quarter and the government's unwillingness to bail out certain overleveraged companies in the property sector (e.g. Evergrande) also led to declines in the sector. Macro data pointed to a slowdown in China's economic growth. The country's zero tolerance Covid-19 approach and recent energy shortages have dampened activity. Rising fuel, raw material and transportation prices remain a concern in the region as input cost inflation reached a new high. China's local equity markets were down by 6% over the quarter.

Japanese equities recorded strong positive performance of almost 3% over the quarter. On the political front, the surprising news of Prime Minister Suga's intention to resign resulted in Fumio Kishida's election as the leader of the LDP. Global demand for Japanese exports has strengthened companies' earnings with further short-term fiscal stimulus promised by Prime Minister Kishida. After a slow take-up of the vaccine rollout, the continuation of stringent Covid-19 measures program has sustained strong momentum with most of the population having been fully vaccinated. In terms of policy, rates were unchanged during the September Bank of Japan (BoJ) meeting.

Australia

In Australia, the S&P/ASX300 Accumulation Index recorded positive performance of 1.8% over the quarter, despite a large part of the Australian population being in lockdown throughout this period. Progress on the domestic vaccine rollout and an improved outlook around the path out of lockdowns helped investor sentiment. GDP for Q2 was better than expected due to stronger consumer spending, with 0.7% rise in the quarter bringing GDP growth over the year to 1.4%. However, Q3 GDP is likely to be negatively impacted by COVID restrictions with a slowdown in retail sales alongside iron ore prices falling by as much as 40% across the quarter as a result of weaker expected demand for steel and the downturn in the Chinese property sector. House prices continued to increase, bringing house price growth to 17.6% for the year as record low interest rates and a limited supply of stock have underwritten demand.

Despite the extended lockdown and slowdown in activity, the RBA elected to reduce its weekly bond purchases from A\$5bn to \$4bn through to at least mid-February 2022. Yet, the RBA seems determined to keep the official cash rate at its current low level (close to zero) for longer, keeping monetary conditions highly accommodative in Australia.

Fixed Income

Volatility in Fixed Income markets picked up again towards the end of the quarter, as financial markets saw a broad-based rise in yields on the back of a hawkish pivot by key central banks around the globe.

Most developed market bond indices gained early in the quarter but gave back most of the positive returns in September to finish the quarter roughly flat. The Australian and global composite bond indices finished the quarter at +0.3% and +0.1%, respectively. Emerging markets debt declined over the quarter. Despite the volatility in equities and spike in interest rates, corporate spreads remained resilient, and the Global high yield index gained approximately 1% over the quarter, while Investment Grade finished flat.

Commodities & FX

Major commodity prices including energy soared in September closing the quarter with substantial gains. Price gains were fuelled by the rebound in global growth, constrained output from producer countries and weather-related events such as the Hurricane Ida. Oil exporting countries have

also been hampered by supply bottlenecks. Brent energy prices rallied given concerns around the persistent supply deficit driven by lower OECD inventories.

The volatile environment meant that the US dollar performed strongly, partly due to its perceived 'safe haven' characteristics. The Australian dollar came under pressure and depreciated over the period.

Strategy Commentary – Q3 2021

The BlackRock Tactical Growth Fund gained 1.55% (after fees) over the quarter ending 30 September 2021, while its composite benchmark gained 1.45%. This brings the Fund's year-to-date return to +10.90% (after fees), 0.5% ahead of its benchmark. Growth assets, including Australian and international equities and REITs continued to advance in July and August and drove the Fund's positive return over the quarter, despite a pullback towards the end of the quarter. Emerging markets (EM) equities was an exception and detracted over the quarter. The Fund's more defensive asset classes (e.g. government bonds, inflation-linked bonds and gold) recorded mixed performance. Australian bonds, US inflation-linked bonds and gold contributed positively to overall performance, while EM debt detracted.

Looking at active returns, the Fund slightly outperformed its diversified benchmark over the quarter. Most of the outperformance came in September when markets started trading in a risk-off fashion. A key driver of the Fund's outperformance during that time was a tactical underweight position to global government bonds relative to the Fund's composite benchmark. The rapid adjustment upward in bond yields observed in September caught markets by surprise and led to negative returns from fixed income indices, which in turn led to positive alpha at the Fund level. Furthermore, a tactical overweight position in Japanese equities generated positive active returns over the quarter.

Besides tactical asset allocation, the Fund also follows an active security selection process within asset classes. Performance from active security selection was mixed over quarter but mildly positive on aggregate. Security selection in global listed infrastructure, REITs and fixed income securities generated positive active returns, while stock selection in Australian and international equities detracted.

Outlook and Positioning

After seven months of positive performance from growth assets, risk appetite deteriorated in September due to increasing concerns such as China's growth slowdown, the energy crisis, inflation and the potential tapering by global central banks (including the US Fed). Corporate earnings results have been strong in recent quarters and many economic indicators have recovered back to pre-Covid levels, but the positive economic momentum appears to be slowing.

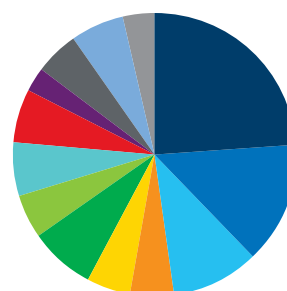
A combination of longer-than-expected supply chain disruptions and the spread of the Delta variant have placed downward pressure on near-term growth momentum and upward pressure on inflation. Tighter labour markets, coupled with firmer price increases, have encouraged central banks around the world to make a gradual but definite move towards a less accommodative policy stance (e.g. slowing the pace of asset purchases).

While we feel that the environment is still generally quite favourable for risk assets (including equities), we think this constellation of macro drivers is likely to be a more challenging environment for both equities and fixed income. As such, we reduced the size of our equity overweight and 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 Fund's overall equity exposure is close to its strategic benchmark. We currently prefer to take risk at a sector and country level (e.g. overweight Spanish, Italian and Japanese equities). We expect government bond yields to continue to move higher, but at a slower pace than in previous cycles. We maintain our 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. For example, we recently implemented option trades that would benefit in case of a pull-back in Australian equities. A significant sell-off in equity markets is not our base-case, but we are mindful that valuations remain 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	1.80	0.40
International Shares - unhedged	14.00	4.00	0.60
International Shares - hedged	10.00	0.60	0.10
International Infrastructure	5.00	4.50	0.20
International Property	5.00	3.10	0.20
Emerging Market Equity	7.50	-3.80	-0.30
Australian Bonds	5.00	0.30	0.00
Aust. Inflation-Linked Bonds	6.00	-0.50	0.00
US Inflation-Linked Bonds	6.00	1.80	0.10
Emerging Market Debt	3.00	-0.80	0.00
Global High Yield	5.00	0.80	0.00
Gold	6.00	3.10	0.20
Cash	3.50	0.00	0.00

Total Benchmark Return: 1.50

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	510 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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