

BLACKROCK TACTICAL GROWTH FUND

BLACKROCK®

FUND UPDATE

31 October 2021

Investment Performance (%)

	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Tactical Growth Fund (Gross of Fees) ¹	-0.03	-0.10	11.55	20.18	12.55	11.07	
Diversified Benchmark ⁴	0.23	-0.25	10.66	18.67	10.28	9.46	-
Outperformance (Gross of Fees)	-0.27	0.15	0.89	1.51	2.27	1.62	-
BlackRock Tactical Growth Fund (Net of Fees) ²	-0.10	-0.31	10.79	19.19	11.61	10.13	8.12
Diversified Benchmark ⁴	0.23	-0.25	10.66	18.67	10.28	9.46	8.40
Outperformance (Net of Fees)	-0.34	-0.06	0.13	0.52	1.34	0.68	-0.29
BlackRock Balanced Fund (Net of Fees) ³	-0.10	-0.32	10.26	18.51	10.80	9.21	6.87
Diversified Benchmark ⁴	0.23	-0.25	10.66	18.67	10.28	9.46	8.31
Outperformance (Net of Fees)	-0.34	-0.07	-0.40	-0.16	0.53	-0.25	-1.44

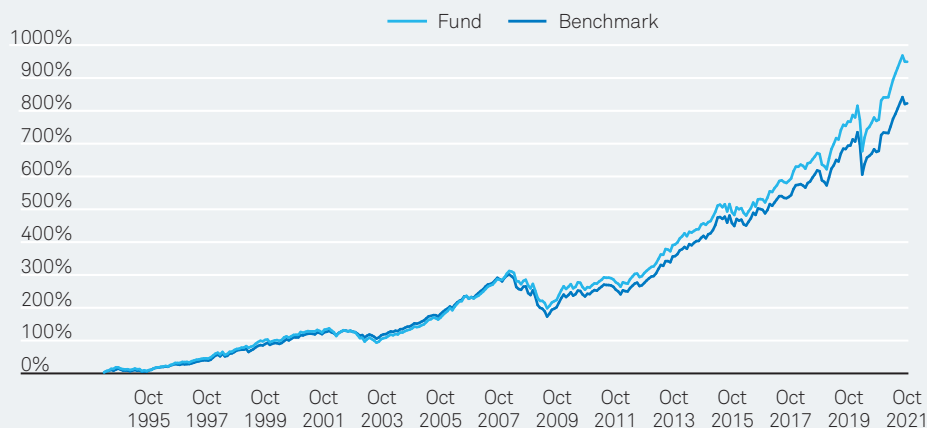
¹ Fund inception: 30/09/1992. ² Fund inception: 30/09/1992. ³ Fund inception: 30/04/1992.

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 31 October 2021



Performance Summary

Market Overview

October was a mixed month for financial markets. Risk sentiment stayed positive as equities rebounded from their losses in September. Commodities had another strong month with energy prices continuing to rally, stoking inflationary pressures globally. Developed market government bond yields sold off over the month on the back of continued expectations around monetary stimulus being withdrawn. Some of the most significant rate moves occurred in Australia. 2-year Australian government bond yields spiked from close to zero to 0.6%, while 10-year yields rose from 1.5% to

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over 2.0% in October after the Reserve Bank of Australia (RBA) abandoned its yield curve control measures and did not intervene in defending its 0.1% target for the key April 2024 bond. High yield markets recorded mildly negative returns, while investment grade markets were roughly flat over the month.

Global equities continued to deliver strong positive returns, especially in Australian dollar hedged terms. 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 high dividend pay-outs. Japanese equities declined slightly in October despite September's rally following a change in Japan's political environment. The Australian dollar appreciated strongly over the month (which lowered some of the unhedged international equity returns).

US

US equities represented through the S&P 500 Index gained over 6% in October (in USD terms). Most sectors recorded positive performance, with Consumer Discretionary, Energy and Technology the top sectors in the US, helping drive the S&P 500 to a new peak. Emphasis on upbeat US earnings, robust fiscal expansion and an improved COVID environment with vaccinations and boosters created a favourable backdrop.

The Federal Open Market Committee (FOMC) meeting minutes signalled a range of views in tapering discussions. Despite previously categorising this extended phase of high inflation as 'transitory', an emergence of sticky broad-based inflation led to Federal Reserve Chair Jerome Powell announcing the taper of the central bank's \$120 billion asset purchase program in November (as widely expected).

From an economic data front, data prints for September's retail sales topped expectations and the flash PMI's pointed to growing momentum. The recovery in the labour market sputtered as the September nonfarm payroll report surprised to the downside with the headline number printing well below the consensus. The weak data highlighted the difficulties filling vacant positions primarily attributable to labour shortages and the uncertainties around the Delta variant. September's inflation (CPI) report was strong, despite the weaker monthly growth seen during the summer, introducing a "stagflation" worry in markets – high inflation but potentially weak economic growth.

US GDP growth of 2.0% y/y for the third quarter was somewhat disappointing, as a combination of negative effects from Hurricane Ida and persistent supply-side constraints weighed on economic growth. While the US economy has been growing strongly for much of this year, momentum continues to be dampened by supply side bottlenecks and shortages of semiconductor chips. The rate of GDP growth has also decelerated despite consumer confidence remaining high. Prime Minister Biden's legislative push to temporarily raise the government's borrowing limit provided some relief to a stressed credit market.

Europe

European equity markets represented through the Euro Stoxx 600 Index gained over 4.7% in October (in euro terms). Emergence of strong Q3 earnings highlighted growing consumer demand, with Utilities, IT and Consumer Discretionary the top performing sectors.

Within the European block, third quarter seasonally adjusted GDP for the Eurozone showed growth of 2.2% on a quarter-on-quarter basis, a slight increase from Q2. However, significant price increases, particularly across commodities and input components, created major supply side challenges. The European Central Bank (ECB) reinforced the narrative that the upcoming period of high inflation will be largely transitory. Employment data generally improved across the Euro Area but the composite PMI hit a six-month low, as businesses struggle with supply bottlenecks and rising raw materials costs.

The UK equity market as measured by the FTSE Index gained north of 2%. Strong Q3 earnings, particularly within the financial sector was an indication of attractive valuations and dividend yields. The previously observed spike in new COVID cases reached a peak in late October,

however, this is yet to translate into concerns regarding hospitalisation or deaths given the highly vaccinated population. The relaxation of COVID related restrictions in July has continued to boost business and consumer spending, with the UK's Composite PMI growing in October and remaining firmly in expansionary territory. Labour shortages and rising supply costs continue to place stress on wages with the Bank of England indicating a possible rate rise in early 2022 to help ease mounting short-term inflationary pressures.

Asia

Asian equities recorded mixed performance in October. Chinese equities gained, following several months of substantial underperformance. The Chinese property sector also slightly rebounded after large property developers made interest payments that were previously defaulted. China continues to follow a zero-case Covid policy and reimposed lockdown restrictions after the emergence of new Covid cases in October. Despite revised expectations for a slowdown in China's 2021 economic growth and global supply chain disruptions, a 27.1% rise in China's trade surplus provided welcome relief to the economy which has been negatively impacted by weakened consumer spending and electricity shortages. Real GDP growth decelerated in Q3 as inflation, particularly a large surge in food and vegetable prices, spiked as a result of heaving flooding and rising electricity prices. The slowdown in economic growth was driven by a cooling housing market, with a further deceleration in property investment and a deeper contraction in home sales.

Japanese equities reversed their gains from September and declined 1.4% in October. The conclusion of the general election at October end resulted in Prime Minister Kishida's Liberal Democratic Party (LDP) losing 15 seats yet maintaining a comfortable majority and legislative control. Prime Minister Kishida is expected to unveil a large fiscal stimulus package to further support consumer sentiment amidst Japan's transition from a state of emergency. Despite a downturn in the local stock market, Japan's Services PMI moved into expansionary territory (a score above 50) for the first time in two years with strong optimism for improved business conditions and consumer confidence. The Bank of Japan (BoJ) held policy rates unchanged during the October meeting as widely expected.

Australia

In Australia, the S&P/ASX300 Accumulation Index finished the month roughly flat and underperformed most other developed markets, despite the easing of lockdown restrictions. Industrials, Energy and Consumer Staples detracted from a broader rally in IT and Healthcare as inflationary pressures placed strains on consumer confidence.

Core inflation returned to its 2-3% target band for the first time in 6 years, two years earlier than the Reserve Bank of Australia's expectations. Higher inflation and intentions by the Reserve Bank of Australia to scrap its yield curve control (a less accommodative policy stance) could indicate forthcoming tapering and a potential rise in rates sooner rather than later. On the labour market front, wage inflation remains weak with wages growing slowly as closed borders stifle movement further. The Markit Composite PMI Index increased to a four-month high of 52.1 on the back of an improved services and private sector.

Fixed Income

Volatility in Fixed Income markets increased in October as bond yields experienced sharp moves throughout the month. The Australian composite bond index declined almost 4% as domestic bond yields surged on the back of higher-than-expected inflation and markets pricing in potential rate hikes commencing as soon as 2022.

Global government bond yields also tended to move higher in October (especially shorter-term bond yields), but nowhere near the pace of Australia. Most global government bond indices recorded mildly negative returns in October. Riskier parts of the fixed income markets, such as emerging markets debt and high yield indices finished the month either flat or slightly negative.

Commodities & FX

Major commodity prices including oil and copper rallied in October, as supply struggled to keep pace with the rise in demand from the resumption

in activity in major economies. Brent crude was up 7.7% in October and WTI crude surged 10.9%. Similarly, other metals also recorded strong performance over the month. In terms of Gold, rising inflationary pressures increased demand for the precious metal as it reversed its previous weak performance. In currencies, the Australian dollar was one of the strongest performers over the month in part due to the demand for commodity-linked currencies.

Strategy Commentary – October 2021

The BlackRock Tactical Growth Fund recorded a roughly flat return in October (-0.1%, after fees). This brings the Fund's year-to-date return to +10.8% (after fees), slightly ahead of its diversified benchmark. Asset classes recorded mixed performance in October. Most growth assets, including Australian equities, international equities and global REITs showed positive performance and added to total returns. On the flipside, emerging markets (EM) equities detracted. The Fund's more defensive asset classes also recorded mixed performance. US inflation-linked bonds gained in October, whilst Australian and global government bonds and gold declined. Global high yield securities and EM debt finished the month roughly flat.

Looking at active returns, the Fund underperformed its diversified benchmark in October. Tactical asset allocation decisions and security selection in fixed income markets drove the Fund's underperformance over the month. For example, a tactical underweight position to long-dated German government bonds detracted, as the German yield curve flattened over the period. An underweight position to the Australian dollar (relative to the Fund's composite benchmark) also detracted. Furthermore, the portfolio had a small underweight position to US equities (and an overweight to European equities), which hurt active performance as US equities significantly outperformed global peers.

On the positive side, stock selection in international equities – especially in EM equities – was additive and offset some of the aforementioned losses. The Fund's other active return sources (e.g. security selection in Australian equities, global listed infrastructure, REITs and style premia strategies) generated relatively muted performance over the period.

Outlook and Positioning

Recent corporate earnings releases in the US and Europe have been strong, which helps to justify high equity valuations, with several major equity indices currently trading at all-time highs. The majority of companies that released quarterly earnings beat expectations (from a sales and earnings perspective). Yet, the few companies that missed earnings forecasts sold off sharply – indicating that a lot of the optimism had already been priced in. Markets have become somewhat more jittery amid focus on China's regulatory clampdown and the potential tapering by several central banks around the globe including the Reserve Bank of Australia (RBA), US Federal Reserve (Fed) and Bank of England (BoE). We believe the path for further gains in risk assets has narrowed after an extended run higher, warranting a more selective approach.

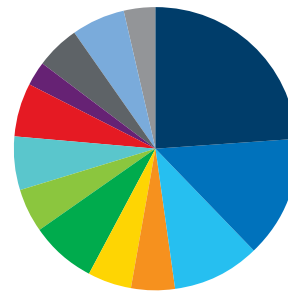
A combination of longer-than-expected supply chain disruptions and the ongoing battle with the Delta variant have placed downward pressure on near-term growth momentum and upward pressure on inflation. Tighter labour markets, coupled with firmer price increases, have encouraged central banks around the world to make a gradual but definite move towards a less accommodative policy stance. For example, the Fed announced the start of tapering at its November meeting (e.g. slowing the pace of asset purchases), while the RBA abandoned its policy on yield curve control. Yet, both the Fed and the RBA indicated that they would be patient before deciding to start hiking rates. The RBA said that underlying inflation in Australia would have to sustainably achieve its 2-3% inflation target before it would consider lifting the cash rate. This reinforces our view that the response to higher inflation by central banks is going to be more muted than in the past – a positive for risk assets.

While we feel that the environment is still generally quite favourable for risk assets (including equities), there are several risks on the horizon including China's growth challenges, tighter energy markets, inflation and global supply constraints. 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 prefer inflation-linked bonds over nominal bonds for portfolio duration exposure.

We have derivative structures in place that provide some optionality and would reduce the portfolio's growth/defensive split in case of a market correction. 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	0.10	0.02
International Shares - unhedged	14.00	1.65	0.23
International Shares - hedged	10.00	5.43	0.54
International Infrastructure	5.00	0.00	0.00
International Property	5.00	1.37	0.07
Emerging Market Equity	7.50	-2.98	-0.22
Australian Bonds	5.00	-3.55	-0.18
Aust. Inflation-Linked Bonds	6.00	-2.31	-0.14
US Inflation-Linked Bonds	6.00	1.13	0.07
Emerging Market Debt	3.00	0.05	0.00
Global High Yield	5.00	-0.26	-0.01
Gold	6.00	-2.47	-0.15
Cash	3.50	0.00	0.00

Total Benchmark Return: 0.23

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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