

BLACKROCK TACTICAL GROWTH FUND

BLACKROCK®

FUND UPDATE

30 November 2021

Investment Performance (%)

	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Tactical Growth Fund (Gross of Fees) ¹	0.92	-0.88	12.57	13.72	13.12	10.77	-
Diversified Benchmark*	1.14	-0.91	11.92	12.95	10.96	9.32	-
Outperformance (Gross of Fees)	-0.22	0.03	0.65	0.77	2.17	1.44	-
BlackRock Tactical Growth Fund (Net of Fees) ²	0.85	-1.09	11.72	12.78	12.18	9.83	8.12
Diversified Benchmark*	1.14	-0.91	11.92	12.95	10.96	9.32	8.42
Outperformance (Net of Fees)	-0.29	-0.18	-0.20	-0.17	1.23	0.51	-0.30
BlackRock Balanced Fund (Net of Fees) ³	0.84	-1.09	11.19	12.19	11.40	8.93	6.88
Diversified Benchmark*	1.14	-0.91	11.92	12.95	10.96	9.32	8.33
Outperformance (Net of Fees)	-0.30	-0.19	-0.73	-0.76	0.44	-0.39	-1.45

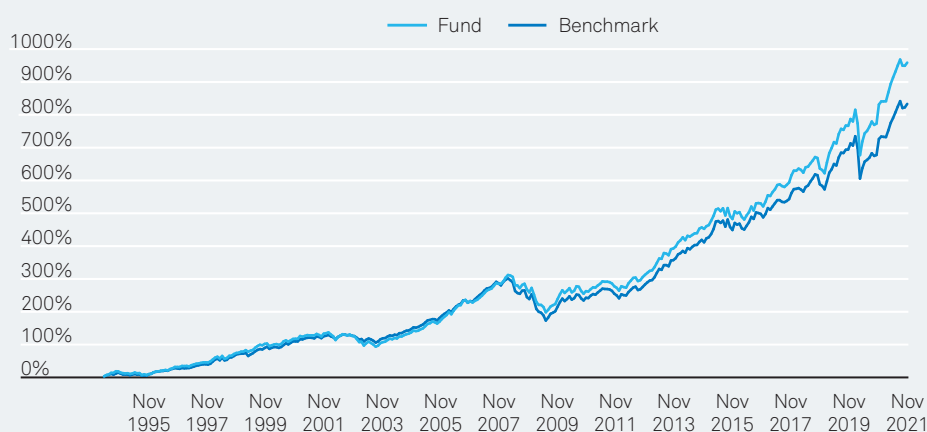
¹ Fund inception: 30/09/1992. ² Fund inception: 30/09/1992. ³ Fund inception: 30/04/1992.

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 November 2021



Performance Summary

Market Overview – November 2021

November was a volatile month for financial markets. Risk sentiment dropped with the emergence of the Omicron variant of COVID-19, which added significantly to investor uncertainty. Concerns around the rate of transmission of this new virus strain, the degree to which it evades prior immunity to other variants and whether it causes more (or less) severe disease than the Delta variant drove growth assets lower. Government responses to the new Omicron variant are unclear although some countries have already tightened mobility restrictions. November was also marked by the

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- Unit Prices

UN climate conference – COP26 – where global leaders discussed their climate commitments and assessed ways for coordinating efforts to combat climate change going forward.

Most global sharemarkets finished the month in the red (in local currency terms). Developed market equities and emerging market counterparts declined particularly sharply towards month-end when concerns regarding the Omicron variant first emerged. High inflation in the US, Europe and parts of Asia also remained a key topic amongst investors. Developed market government bond yields reversed some of their losses from October as rates retreated after rising in previous months.

US

US equities represented through the S&P 500 Index declined 0.7% in November. Strong Q3 corporate profits pushed the S&P 500 to a new peak in early November, however, hawkish comments from Federal Chair Jerome Powell and the emergence of the new Omicron variant prompted sharp selloffs towards the end of the month. Technology and Consumer Discretionary were the top performing sectors in the US with Financials, Communications and Energy declining most.

The expected re-election of Jerome Powell as Federal Chair for a further four years eased some uncertainty over US monetary policy, however, rhetoric by the policy committee describing the current inflationary environment as no longer 'transitory' prompted further speculation that the taper of the central bank's \$120 billion asset purchase program could be accelerated. On the other hand, the uptick in the number of COVID-19 cases and the emergence of the Omicron variant caused some to argue that further policy accommodation is needed to keep the economic recovery on track.

From an economic data front, a fall in the flash PMI in November indicated a slowdown in the manufacturing and services sectors despite a growth in retail sales over the same period. Consumer demand continues to be unmatched by labour shortages and raw material delays, prompting a rise in October's inflation (CPI) by 0.9%, well ahead of consensus. Furthermore, a disparity between the spike in personal income and personal expenditure signalled household eagerness to spend more despite a dramatic deceleration in job creation and unemployment benefit uptake.

President Joe Biden's bipartisan US\$550 billion infrastructure bill to stimulate the domestic economy was passed by the US Senate in November. Nevertheless, much anticipation remains over the US debt ceiling, with obligations expected to arise in late December.

Europe

European equity markets represented through the Euro Stoxx 600 Index detracted over 4.3% in November, reversing the previous month's gains. The emergence of a fourth COVID-19 wave, reintroduction of mobility constraints and persistently high inflation rates weighed on sentiment as energy and financial sectors led losses late in the month.

Within the European block, annual inflation grew to 4.9%, well above consensus and the European Central Bank's (ECB) targeted rate. High energy prices and supply chain disruptions added heavily to the latest inflation reading, although the ECB maintained its transitory stance after announcing the planned end to its emergency bond purchases program in March 2022. Employment data generally improved across the Euro area and was supported by a growth in the composite PMI for the first time in three months, with a resilient services sector buoyed by new business growth and consumer spending.

The UK equity market as measured by the FTSE Index detracted 2.2% over the month. Emergence of the Omicron variant forced the reintroduction of international and regional mobility restrictions, adversely impacting the travel and leisure sectors. Interest rate uncertainty promoted a decline in the financial sector with markets pricing in a reversal of the Bank of England's expected increase in base lending costs. Economic momentum in the UK remained strong until late November with consumer confidence and retail sales increasing at a greater rate than the Eurozone. The end of the government's furlough scheme promoted a record increase in UK payroll workers and a drop in the unemployment rate to 4.3%. Despite

remaining firmly in expansionary territory, the UK's Composite PMI declined in November as concerns regarding fast-growing parts of the services sector heightened given their sensitivity to tighter pandemic restrictions.

Asia

Asian equities also declined in November, in line with their global peers. Chinese equities detracted, however, outperformed the broader Asian market. China's exports continued to grow for three months running, outperforming expectations on the back of strong demand from Europe and global markets ahead of the holiday season. Manufacturing PMI rebounded to 50.1 points, representing a slight expansion in manufacturing activity for the first time in two months. Whilst easing power crunches have helped deliver consistent growth in supply markets, the overseas surge in demand for goods is expected to taper as subdued factory activity and high production costs are expected to weigh on manufacturers and consumers respectively. China continued to follow a zero-tolerance/low-tolerance policy after the emergence of the Omicron variant, stoking fears of a prolonged slowdown in domestic markets and an increase in transportation costs for global peers.

Japanese equities continued to detract in November and declined -3.7% for the month. Despite initially reopening the domestic economy in early November, a weakened yen and subsequent rise in import prices dampened sentiment and weighted on corporate profits and household purchasing power towards the end of the month. Newly elected Prime Minister Kishida's unveiling of a record US\$490 billion spending package represented a shift in the Liberal Democratic Party's (LDF) fiscal conservative stance and is expected to support Japan's reflationary monetary policy in delivering significant GDP gains in 2022. Despite a downturn in the local stock market, Japan's Manufacturing PMI moved into expansionary territory (a score above 50), representing the fastest pace of expansion since January 2018. However, critical supply bottlenecks remain an issue with cost pressures, materials shortages and delivery delays pushing input prices to a new peak.

Australia

In Australia, the S&P/ASX300 Accumulation Index slightly detracted by -0.5% in November and outperformed most other developed markets. Materials, Communications and Real Estate performed best, while Energy, Financials and IT fell as inflationary pressures and rising COVID-19 cases dampened sentiment.

Expected inflation grew to 4.9% in November, the largest year-over-year increase. The Markit Composite PMI Index increased on the back of growing manufacturing and services sectors as momentum and activity was boosted by the reopening of the Australian economy. However, on the labour market front, wage inflation remains weak and labour shortages continue to remain prevalent as mandatory vaccination requirements prompted a fall in employment levels to pre-COVID-19 levels. The Reserve Bank of Australia maintained its case for no rate hikes until 2024 given the lack of broad-based surges in wage growth and a lag in home-grown inflation in comparison to other developed countries.

Fixed Income

Fixed Income markets generally recorded positive performance in November as bond yields retreated following previous rates rises. The Australian composite bond index gained almost 2% as the October sell-off was reversed in November and investors scaled back rate hike expectations.

Global government bond yields also tended to decline in November, but nowhere near the pace of Australia. As a result, most government bond indices recorded mildly positive returns over the month. Riskier parts of the fixed income markets, such as emerging markets debt and high yield indices finished the month slightly negative, as spreads widened.

Commodities & FX

Major commodities including energy, iron ore and copper gave back returns in November and one of the largest moves came from the energy sector as oil prices dropped. WTI crude and Brent crude lost value as a result of both the Omicron narrative and also speculation that President Biden could tap into the Strategic Petroleum Reserve. Gold finished the month roughly flat. Looking at currencies, the flight to safety in November benefitted the US dollar which rose 2% over the month. The Australian dollar depreciated meaningfully against most major currencies.

Strategy Commentary – November 2021

The BlackRock Tactical Growth Fund gained 0.85% in November (after fees). This brings the Fund's year-to-date return to +11.72% (after fees), slightly behind its diversified benchmark. Asset classes recorded mixed performance in November. Most growth assets including Australian equities and international equities (hedged) detracted from total returns as markets experienced volatility towards the end of the month after the emergence of the Omicron variant. The Australian dollar depreciated meaningfully in November, which boosted returns from the unhedged international equity exposures in the portfolio. The Fund's more defensive asset classes generally recorded positive performance. US inflation-linked bonds, Australian government bonds and gold gained alongside the Fund's global infrastructure and REITs allocations.

Looking at active returns, the Fund slightly underperformed its diversified benchmark over the month (after fees). Security selection in global REITs and fixed income securities generated positive active returns, while stock selection in Australia equities detracted. However, the largest detractor from active returns in November was tactical asset allocation decisions. For example, a tactical underweight position to long-dated German government bonds detracted, as the German yield curve flattened over the period. The portfolio had an overweight position to Japanese, Spanish and Italian equities, which also weighed on active performance as these sharemarkets declined over the period.

Outlook and Positioning

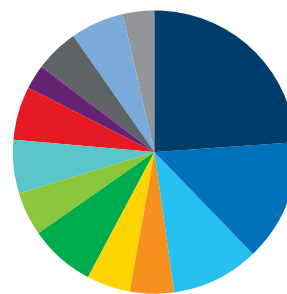
Markets have become more jittery amid the emergence of the new Omicron virus strain and the potential tapering by several central banks around the globe including the Reserve Bank of Australia (RBA) and US Federal Reserve (Fed). On the positive side, corporate earnings continue to come through strongly and forward guidance remains generally upbeat.

The new COVID Omicron variant combined with ongoing supply chain disruptions have placed downward pressure on near-term growth momentum, and inflation continues to be a major concern. 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. To date, both the Fed and the RBA indicated that they would be patient before deciding to start hiking rates. This contrasts with current market pricing for interest rates which infers rate hikes in both the US and Australia beginning in Q2 2022. The RBA continues to state that underlying inflation in Australia would have to sustainably achieve its 2-3% inflation target before it would consider lifting the cash rate, which in turn would require wages growth at a much healthier pace of growth than where it currently is. 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 new virus strains, China's growth challenges, tighter energy markets and sticky inflation. 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 run through to the end of the year), which 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	-0.53	-0.13
International Shares - unhedged	14.00	3.70	0.52
International Shares - hedged	10.00	-1.57	-0.16
International Infrastructure	5.00	2.01	0.10
International Property	5.00	3.33	0.17
Emerging Market Equity	7.50	1.72	0.13
Australian Bonds	5.00	2.08	0.10
Aust. Inflation-Linked Bonds	6.00	2.46	0.15
US Inflation-Linked Bonds	6.00	1.05	0.06
Emerging Market Debt	3.00	-1.97	-0.06
Global High Yield	5.00	-0.91	-0.05
Gold	6.00	5.01	0.30
Cash	3.50	0.01	0.00

Total Benchmark Return: 1.14

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	509 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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