

BLACKROCK TACTICAL GROWTH FUND

BLACKROCK®

FUND UPDATE

31 December 2021

Investment Performance (%)

	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Tactical Growth Fund (Gross of Fees) ¹	2.17	3.08	15.02	15.02	14.44	10.57	-
Diversified Benchmark*	2.00	3.41	14.16	14.16	12.27	9.10	-
Outperformance (Gross of Fees)	0.17	-0.33	0.86	0.86	2.17	1.46	-
BlackRock Tactical Growth Fund (Net of Fees) ²	2.10	2.86	14.07	14.07	13.49	9.63	8.18
Diversified Benchmark*	2.00	3.41	14.16	14.16	12.27	9.10	8.47
Outperformance (Net of Fees)	0.10	-0.55	-0.09	-0.09	1.22	0.53	-0.29
BlackRock Balanced Fund (Net of Fees) ³	2.10	2.86	13.53	13.53	12.73	8.75	6.93
Diversified Benchmark*	2.00	3.41	14.16	14.16	12.27	9.10	8.37
Outperformance (Net of Fees)	0.10	-0.55	-0.64	-0.64	0.46	-0.35	-1.44

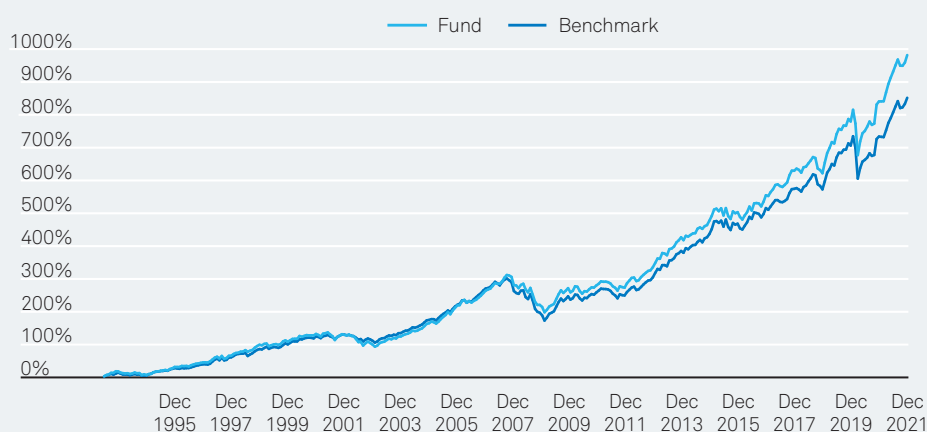
¹ Fund inception: 30/09/1992. ² Fund inception: 30/09/1992. ³ Fund inception: 30/04/1992.

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 December 2021



Performance Summary

Market Overview – Q4 2021

The last quarter of the year was a volatile one for financial markets. The emergence of the Omicron variant of COVID-19 pushed global case numbers to new highs, adding significantly to investor uncertainty over the period. Despite the tightening of restrictions in some regions, central banks pushed ahead with their normalization plans and took on a more hawkish tilt. Recent data supported the notion that the Omicron variant has a milder effect on the population and hospitalization rates appeared manageable. Investors looked through the noise and volatility in markets and pushed

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

equity prices higher over the period. Nonetheless, concerns around a slowdown in global growth, geopolitical tension, inflation and supply chain constraints remain elevated into 2022.

Most developed market equities finished the quarter positive after a moderate correction in November. Emerging markets equities were slightly down, weighed by China as the country continues to undergo regulatory change to provide a more stable backdrop for long-term growth in 2022. High inflation continues to be a key topic in the US, Europe, parts of Asia and New Zealand. Developed market government bond indices, including New Zealand bonds also experienced a volatile period and finished the year down as rates continued to advance amidst upward trending inflation.

US

In the US, the S&P 500 Index gained 11% over the quarter (in local currency terms). Despite hawkish Federal Reserve (Fed) comments and the emergence of the Omicron virus weighing on investor sentiment, strong corporate earnings growth helped generate positive equity returns over the period. In terms of sectoral moves, Real Estate and Technology stocks outperformed over the quarter, with the S&P 500 setting a dividend payment record, signaling a move past the COVID recovery.

On the policy front, the US Fed adopted a more hawkish stance on the back of a tightening US labor market and ongoing inflationary pressures. The Fed doubled the pace of tapering and signaled three rate hikes in 2022. It also indicated that its balance sheet run-off will likely start sooner and the run-off amounts will likely be larger. US GDP growth expanded at an annual rate of 2.3% in Q3, outpacing estimates of 2.1% despite record COVID-19 cases and hospitalizations. Strong consumer demand and a sharp rise in wages was coupled with a drop in the unemployment rate to 3.9% in December, a pandemic low. However, the US economy is still 3.6 million jobs short of pre-pandemic levels, indicating that many are still reluctant to return to the workforce given the prevalence of both the Delta and Omicron variants of COVID-19 within the economy. This was furthered by a fall in the December flash services PMI, signaling a loss of momentum into 2022.

Europe

European equity markets represented through the Euro Stoxx 600 Index gained 6.4% over the quarter (in local currency terms). The Utilities sector was one of the strongest performers, with Information Technology also seeing a robust advance.

Within the European block, annual inflation grew to an all-time high of 5% as high energy prices and supply chain disruptions added heavily to the December inflation figure. A rapid increase in COVID-19 infections as a result of the colder climate and contagious nature of the Omicron variant hindered growth. The IHS Markit Eurozone Services PMI declined to 53.3 in December. However, a slowdown in new businesses and reintroduction of COVID related restrictions did little to dampen December's manufacturing PMI with healthy expansion indicating strong consumer confidence. The European Central Bank (ECB) decided to end its bond purchases under its pandemic emergency purchase program (PEPP) by March 2022 however, bond buys under the Asset Purchase Program (APP) will ramp up to serve as a segue until the end of the PEPP. December also marked the end of Angela Merkel's 16-year tenure as Chancellor of Germany, with newly elected Olaf Scholz of the Social Democrats expected to introduce decarbonization and digitalization policies alongside a strong fiscal revamp from 2023 onwards.

Within the UK, equity markets finished the fourth quarter with positive gains of almost 5%, as measured by the FTSE Index. A slowdown in the UK economy, prior to the emergence of the Omicron variant, revised GDP growth figures from 1.3% to 1.1% in Q3. Despite the end of the UK furlough program, labour markets continued to tighten as the unemployment rate dropped to 4.2% and job vacancies peaked to 1.2 million, signalling further wage related price increases. Disruptions to global supply chains and high energy prices pushed the UK CPI to 5.1% year-over-year in November, the highest rate in a decade. The Bank of England subsequently raised interest rates by 0.15% to 0.25%, marking the first-rate hike in three years.

Asia

Asian equities recorded mixed performances over the quarter, driven by pandemic-related restrictions and global concerns over the spread of the Omicron variant. China's economy continued its recovery, albeit at a slower pace, with GDP growing at 4.9% in Q3, down from 7.9% in Q2. Contrary to other global banks, the People's Bank of China (PBOC) reduced lending costs through cuts to the short-term loan prime rate and reserve requirement ratio in a bid to support domestic businesses. Macro data pointed to a slowdown in China's domestic consumption, with weakened retail sales in Q3 driven by continued job uncertainty and crackdowns on real estate developers, both factors affecting consumer confidence. Chinese equities gained 1.6% over the quarter but underperformed most global peers.

Australia

In Australia, the S&P/ASX300 Accumulation Index recorded positive performance of 2.2% over the quarter. Materials, Utilities and Real Estate performed best, while Energy, Technology and Financials fell as inflationary pressures and peaking COVID-19 cases dampened sentiment. The GDP print for Q3 came in negative (down 1.9% but roughly in line with expectations), reflecting a significant fall in consumption due to lockdowns over the period. The consumer confidence index fell by 1% in December with ongoing concerns around COVID-19 and inflation dominating headlines. Changes to the serviceability buffer have also slowed down the pace of house price growth to 1% in December. Unemployment declined meaningfully to 4.6% in November, while the participation rate jumped on the back of easing pandemic restrictions. Despite coming out of an extended lockdown and slowdown in activity, the RBA made no changes to its monetary policy in December. However, markets have started to price in rate hikes in 2022.

Fixed Income

Similar to equity markets, Fixed Income markets were also characterized by increased volatility. Global Bond yields continued to rise, post a brief November relief and most bond returns ended the year in negative territory. Developed market bond indices fell early in the quarter before scaling back in December after the emergence of the Omicron variant. The Australian composite bond index finished the quarter down 1.5%, whilst the global composite bond index finished the quarter roughly flat. Riskier parts of the fixed income markets, such as emerging markets debt and high yield indices recorded mixed performance, with high yield closing the year up 3.8%, whereas investment grade recorded losses. Emerging market debt and investment grade finished the quarter roughly flat whereas the Global High Yield index gained approximately 0.6%.

Commodities & FX

Major commodity indices recorded positive performance over the quarter. Gains in industrial metals, in particular copper and nickel, were led on the back of economic recoveries and increased electrification over the period. Crude and Brent energy prices gained slightly over the quarter given concerns around persistent supply deficits and ongoing increases in demand. Gold and iron ore also gained over the period, alongside a slight appreciation in the Australian dollar.

Strategy Commentary – Q4 2021

The BlackRock Tactical Growth Fund gained 2.86% over the quarter (after fees). This brings the Fund's return for the 2021 calendar year to +14.07% (after fees), roughly in line with its composite benchmark. Looking at performance drivers over the quarter, growth assets continued to drive the Fund's overall return. Equities – in particular international equities and global REITs – enjoyed a strong quarter. Emerging markets (EM) equities were somewhat of an outlier and weighed down on returns partly driven by ongoing growth concerns in China and persistent supply chain disruptions in the area. The portfolio's more defensive asset classes recorded mixed performance over the period. Inflation-linked bonds, gold and global high yield gained, while Australian nominal bonds and EM debt detracted.

Looking at active returns, the Fund underperformed its diversified benchmark over the quarter. Security selection in global fixed income generated positive active returns, whilst security selection in global REITs and listed infrastructure detracted. Stock selection in Australian and international equities generated relatively muted active performance. However, the largest detractor from active returns over the quarter was tactical asset allocation decisions. For example, a tactical overweight position to Japanese and Spanish equities versus an underweight to US equities weighed on performance. Positioning in German government bonds also detracted, as the German yield curve flattened over the period. Furthermore, the portfolio had an overweight position to the Euro (versus a basket of currencies), which weighed on performance as the Euro depreciated over the period.

Outlook and Positioning

Markets have become more jittery amid the emergence of the new Omicron virus strain and the liquidity removal by several central banks around the globe. We monitor the situation closely but believe that Omicron is likely to delay – not derail – the powerful activity restart even as its impact is likely to differ by country. As a result, we remain fairly optimistic and try to look through the current noise and volatility in markets.

The key themes that have been driving markets recently – and we believe will continue to drive markets into 2022 – are news on the Omicron variant and a more hawkish tilt from central banks around the globe. Current data on Omicron supports the hypothesis that it will be less severe than Delta, vaccination rates are higher, and there is less political support for a return to stringent lockdown conditions (especially in Australia). This gives us confidence that the re-opening will continue and lends overall support to likely strong forthcoming macro data. Central banks have pivoted to a much more hawkish posture around the globe. For example, the European Central Bank (ECB) trimmed the PEPP programme meaningfully in December, removing liquidity from the system and signalling a more hawkish policy stance. The US Fed continued its hawkish pivot by doubling the pace of tapering and signalling three rate hikes in 2022. It also indicated that it is planning to shrink its balance sheet sooner than expected – quantitative tightening (QT). The Reserve Bank of Australia (RBA) at this stage continues to indicate that it will be patient before deciding to hike rates, but many investors expect the RBA to raise rates beginning around the middle of 2022. While global central banks have turned more hawkish in recent weeks, we believe their response to high inflation and strong economic growth is going to be more muted than in the past and real rates are likely to remain negative for a few more quarters, which is ultimately a positive for risk assets.

We also watch developments in China and how potential policy changes (regulatory and monetary) could impact the outlook. Our current perception of expectations is that on both fronts policy should get incrementally more favourable. A risk is that we see more market “unfriendly” regulatory policies in China and the monetary backdrop remains reasonably tight.

We feel that risk assets (including equities) can continue to deliver positive performance going forward, but believe the magnitude of returns is going to be lower and it could come with higher volatility. 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 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, 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	2.21	0.53
International Shares - unhedged	14.00	7.19	1.01
International Shares - hedged	10.00	7.88	0.79
International Infrastructure	5.00	6.80	0.34
International Property	5.00	8.15	0.41
Emerging Market Equity	7.50	-1.62	-0.12
Australian Bonds	5.00	-1.38	-0.07
Aust. Inflation-Linked Bonds	6.00	2.39	0.14
US Inflation-Linked Bonds	6.00	2.44	0.15
Emerging Market Debt	3.00	-0.39	-0.01
Global High Yield	5.00	0.42	0.02
Gold	6.00	3.74	0.22
Cash	3.50	0.01	0.00

Total Benchmark Return: 3.41

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	516 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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