

# BLACKROCK TACTICAL GROWTH FUND

# BLACKROCK®

FUND UPDATE

28 February 2022

## Investment Performance (%)

	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Tactical Growth Fund (Gross of Fees) <sup>1</sup>	-1.99	-2.57	-4.64	9.62	9.63	9.21	
Diversified Benchmark*	-1.53	-2.41	-4.32	9.47	7.97	7.97	-
Outperformance (Gross of Fees)	-0.47	-0.16	-0.32	0.15	1.66	1.23	-
BlackRock Tactical Growth Fund (Net of Fees) <sup>2</sup>	-2.06	-2.77	-4.77	8.71	8.72	8.29	7.95
Diversified Benchmark*	-1.53	-2.41	-4.32	9.47	7.97	7.97	8.26
Outperformance (Net of Fees)	-0.53	-0.37	-0.45	-0.76	0.75	0.32	-0.31
BlackRock Balanced Fund (Net of Fees) <sup>3</sup>	-2.06	-2.77	-4.77	8.30	8.05	7.46	6.72
Diversified Benchmark*	-1.53	-2.41	-4.32	9.47	7.97	7.97	8.16
Outperformance (Net of Fees)	-0.53	-0.37	-0.45	-1.16	0.08	-0.52	-1.45

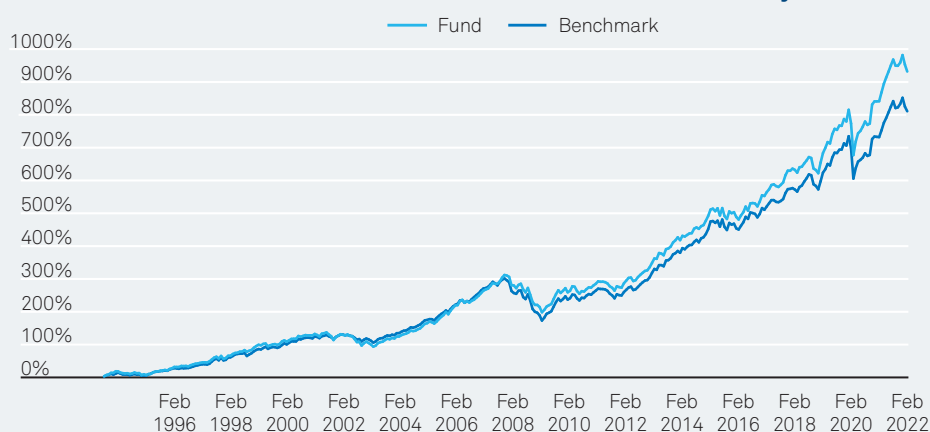
<sup>1</sup> Fund inception: 30/09/1992. <sup>2</sup> Fund inception: 30/09/1992. <sup>3</sup> Fund inception: 30/04/1992.

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<sup>SM</sup>, 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<sup>SM</sup>.

## Cumulative Performance (Gross of fees) to 28 February 2022



## Performance Summary

### Market Overview – February 2022

In February, investors were jolted by Russia's invasion of Ukraine. Markets which were already tested by the pandemic, rising inflation and a global wave of central bank tightening, were further injected with new uncertainty. The United States and its European counterparts imposed a broad range of sanctions on Russia, the most severe of which banning transactions with the Russian central bank in an effort to restrict Russia from deploying foreign reserves. Further restrictions were placed on major Russian financial institutions with the US also removing Russia from the

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Swift International Payment System. Despite positive Q4 2021 earnings reports across developed economies, ongoing inflation concerns, and central bank tightening remained a primary concern early in the month before investors grappled with rallying energy and materials prices after the commencement of Russia's invasion.

Most global sharemarkets finished the month in the red (in local currency terms). Developed market equities and emerging market counterparts (to a greater degree) declined steeply in a classic risk off move over the period. Developed market government bond indices were volatile, with initial strong upside pressure on European bond short-end yields subsiding towards month-end. Most global bond indices finished in the red with long-term yields headed higher as investors demanded more compensation for holding them amid the higher inflationary backdrop.

## US

US equities represented by the S&P500 Index declined 3% in February (in local currency terms), in line with broader market selloffs as investor's adopted a strict 'risk off' stance given the ongoing invasion of Ukraine by Russia. Despite strong fourth-quarter earnings and higher than expected earnings growth, Energy was the only sector to make gains over the period with Technology and Communications detracting sharply.

With the current geopolitical uncertainty and imposing of severe sanctions on Russia, the US Federal Reserve (Fed) along with other central banks have found it hard to navigate near-term monetary policy and interest rate hikes. However, Chair Jerome Powell reiterated expectations that a rapidly healing US economy which had printed a composite Markit PMI of 55.9 in February no longer needed an overly accommodative monetary policy. With inflation accelerating to 7.5% in January and showing no signs of abating, Powell all but confirmed a 25 basis point rate rise in March. While the magnitude remains smaller than initially priced in by markets at the start of the month, it nonetheless foreshadows the dawn of an extended hiking cycle, with markets continuing to reflect six rate hikes in 2022 amidst a tight labour market and strong wages growth.

## Europe

European equity markets represented through the Euro Stoxx 600 Index declined 5.9% in February (in local currency terms), underperforming most other developed markets. Given Europe's reliance on Russian gas, ongoing concerns about energy-driven inflation were exasperated by the conflict within Ukraine. The consumer discretionary and financial sectors underperformed as a result of reduced consumer purchasing power.

Within the European block, January's headline inflation reached 5.1% year-on-year (highest level on record), with more than 50% of the headline number coming directly from energy inflation. An acceleration of economic momentum on the back of easing COVID-19 restrictions was reflected in a rise in the Markit PMI to 55.8, driven largely by a recovering services sector. Despite the unemployment rate falling to 7% and wage growth expected to pick up, the European Central Bank (ECB) tabled discussions for a potential rate rise at its February meeting given the Ukraine crisis, suggesting a more measured approach to be taken given the ongoing uncertainty in the region.

The UK equity market as measured by the FTSE Index gained 1.4% over the month, significantly outperforming most other developed markets due to its relatively higher exposure to energy and materials sectors. The Bank of England (BOE) raised interest rates to 0.5% in February. The UK has also seen a strong growth in private sector activity with the UK Composite PMI jumping to 60.2 in February. However, the BOE has warned that surging energy bills and tighter labour markets would push inflation higher than expected in the coming months, which has already edged up to 5.5% in January.

## Asia

Asian equities declined in February, in line with their global peers. Chinese equities were relatively flat over the period, although renewed concerns about China's crackdown on private enterprises dampened investor sentiment further as the technology sector continues to be hard hit by regulatory pressures. Given China's slowdown in earnings growth, consensus holds that the People's Bank of China (PBoC) will continue to

lower borrowing costs and increase credit supply to spur business activity throughout the year.

Japanese equities continued to detract in February and declined 1.7% over the month (in local currency terms). Japan's bank lending rose at 0.4% in February, the slowest increase in a decade, as immediate pressure for corporates to borrow cash eased and borrowers continued to pay back loans extended during the pandemic. The Bank of Japan (BOJ) continues to monitor developments in Ukraine given their impacts on rising crude oil prices and corporate funding within Japan.

## Australia

In Australia, the S&P/ASX300 Accumulation Index gained 2.1% in February, outperforming most other developed markets. Earning expectations were stronger than expected given recent volatility, with Energy and Utilities driving the positive returns over the month. The rotation out of 'growth' stocks was evident once more over the period, with the IT sector detracting 6.9%.

The easing of Omicron related restrictions resulted in a rise in the Markit Composite PMI to an eight-month high of 55.9 in February, driven by private sector output, demand and higher employment levels. Whilst the January unemployment rate was unchanged at 4.2%, the participation rate rose to 66.2%, a near all-time high. The Reserve Bank of Australia (RBA) announced to maintain its cash rate at 10 basis points and continue to expand their balance sheet, albeit with a more hawkish sentiment as supply-demand imbalances continue to put upward pressure on prices. Gains in house prices continued to decelerate with the latest 0.3% month-over-month rise being the lowest since late 2020.

## Fixed Income

Fixed Income markets were volatile in February as bond yields initially gained given expected tightening from central banks before declining mid-month post the invasion of Ukraine. The Australian composite bond index declined almost 1.2%, with front-end yields rising early in February on the back of the RBA step ending its Quantitative Easing Program before rate hike expectations were scaled back after Russia's escalation of conflict within Ukraine.

Global government bond yields also rose at a similar pace to Australia, which led to many global bond indices finishing the month in the red. Short end rates were still particularly sensitive to the Federal Reserve's hawkish shift, gaining 25 basis points over the period. Riskier parts of the fixed income markets, such as emerging markets debt and high yield indices declined heavily over the month as credit spreads widened again given geopolitical tensions.

## Commodities & FX

Major commodities including energy and industrial materials gained in February, driven by the invasion of Ukraine by Russia pushing prices higher. Gold prices also rose meaningfully over the period on a flight to safety alongside strong price rises for crude oil and Brent crude. Looking at currencies, the USD trade-weighted index gained slightly by 0.2% over the period. The Australian trade-weighted index appreciated by 2.2% in February.

## Strategy Commentary – February 2022

February was a rough month for the BlackRock Tactical Growth Fund both in total and active return space. A sharp sell-off across global equity markets on the back of the ongoing conflict between Russia and Ukraine saw the portfolio fluctuate and detract 2.06% in February (after fees), behind its diversified benchmark.

Looking at the total return over the month of February, top contributions were driven by positioning in Australian equities which were resilient compared to international counterparts and supported Fund returns. The defensive allocations to US Inflation Linked Bonds and Gold acted as useful diversifiers and contributed positively to overall performance given the higher inflationary environment and gold's safe-haven status during periods of high uncertainty. Key performance detractors came from international growth assets given the heightened volatility. International equities, international property and emerging market equities were

the main detractors over February. Australian fixed income and listed infrastructure allocations also performed negatively over the month.

The Fund underperformed its diversified benchmark over the month (after fees).

The Fund's Global REITs and Listed Infrastructure allocations contributed positively to active returns whilst security selection in Emerging equities was the key detractor. The Fund's Global Fixed Income selection strategy and liquid alternative allocation (which is implemented via a market-neutral style premia strategy) also detracted from active returns over the period. Tactical asset allocation decisions and some timely risk mitigation provided a degree of protection during the volatile period in February, which helped cushion active performance somewhat.

## Outlook and Positioning

The Russia/Ukraine conflict has deteriorated quickly. A full-scale invasion by Russia, previously thought unlikely by most investors, has further amplified market volatility. Rising inflation, a global wave of central bank tightening and emergence of a new strain of the Omicron variant of COVID-19 have also added to investor concerns despite strong fourth-quarter earnings and higher than expected earnings growth across equity markets.

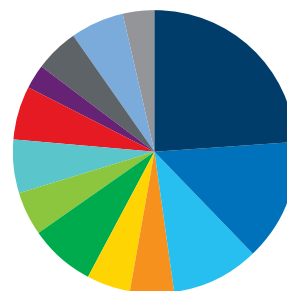
Russia's invasion of Ukraine came as investors had become increasingly concerned about central bank policy expectations. To the extent this does have a lasting impact, it will likely be through the growth, inflation, and policy channels and Europe will likely be more adversely impacted than the U.S and Australia. However, the impact of rising commodity prices on inflation, consumer sentiment, and company margins will be a critical factor to monitor across all economies. As such, sentiment holds that global central banks will carry forward with policy normalisation to counteract higher than anticipated inflation, with the Federal Reserve's chair Jerome Powell all but confirming a 0.25% rate rise in March. The Bank of England (BoE) is also expected to raise rates again in March to combat higher inflationary readings in the UK, whilst the European Central Bank (ECB) has indicated a faster than expected stimulus exit despite the ongoing Russian invasion of Ukraine. Reserve Bank of Australia (RBA) Governor Phillip Lowe reiterated his stance for patience- the RBA continues to emphasise that wage growth would need to accelerate at a much more sustainable pace before rate hikes are warranted, with December quarter inflation at 2.6% which is well within the RBA's target 2-3% range.

In terms of portfolio positioning and key return drivers, our strategic diversified benchmark is our primary source of risk. Our portfolios defensive alternative allocations to Inflation linked bonds, and Gold serve as ballast and provide resiliency in a higher inflationary environment. In addition, we can employ tactical asset allocation decisions (usually derivative structures) which can provide some optionality and reduce the portfolio's growth/defensive split in case of a market correction.

Relative to our strategic benchmark, currently we are underweight US and Australian equities. This is implemented in a capital efficient way and we have tilted positioning more defensively whilst being true to the portfolios targeted "Growth" exposure in aggregate. We continue to monitor the active tilts from the underlying managers closely, particularly those with exposure to sensitive areas such as EM equities/ Europe. In addition, we have also neutralised our high yield exposures through low-cost option hedges. Within fixed income, we have some hedges in place to protect the portfolio from widening investment grade credit spreads, whilst expressing an overweight to domestic shorter maturity bonds. We strategically prefer inflation-linked bonds over nominal bonds for portfolio duration exposure.

We remain wary of the high degree of uncertainty within markets and the economy and continue to monitor and react dynamically to risks from a higher rate environment and ongoing geopolitical tensions.

## Benchmark Allocation



Asset Class	Benchmark Weight (%)	Market Performance	Contribution to Benchmark Return
Australian Shares	24.00	2.09	0.50
International Shares - unhedged	14.00	-5.52	-0.77
International Shares - hedged	10.00	-2.75	-0.28
International Infrastructure	5.00	-3.21	-0.16
International Property	5.00	-4.98	-0.25
Emerging Market Equity	7.50	-5.74	-0.43
Australian Bonds	5.00	-1.21	-0.06
Aust. Inflation-Linked Bonds	6.00	-1.18	-0.07
US Inflation-Linked Bonds	6.00	0.79	0.05
Emerging Market Debt	3.00	-6.27	-0.19
Global High Yield	5.00	-1.43	-0.07
Gold	6.00	3.36	0.20
Cash	3.50	0.01	0.00

**Total Benchmark Return: -1.53**

## 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	500 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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