

BLACKROCK TACTICAL GROWTH FUND

BLACKROCK®

FUND UPDATE

30 June 2022

Investment Performance (%)

	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Tactical Growth Fund (Gross of Fees) ¹	-4.99	-7.86	-11.24	-6.89	4.52	7.06	-
Diversified Benchmark*	-5.21	-8.32	-11.43	-7.08	3.06	5.85	-
Outperformance (Gross of Fees)	0.22	0.45	0.19	0.19	1.45	1.21	-
BlackRock Tactical Growth Fund (Net of Fees) ²	-5.06	-8.06	-11.61	-7.67	3.64	6.17	7.59
Diversified Benchmark*	-5.21	-8.32	-11.43	-7.08	3.06	5.85	7.88
Outperformance (Net of Fees)	0.15	0.26	-0.19	-0.59	0.58	0.32	-0.29
BlackRock Balanced Fund (Net of Fees) ³	-5.05	-8.04	-11.60	-7.66	3.13	5.43	6.38
Diversified Benchmark*	-5.21	-8.32	-11.43	-7.08	3.06	5.85	7.79
Outperformance (Net of Fees)	0.17	0.27	-0.17	-0.58	0.06	-0.42	-1.42

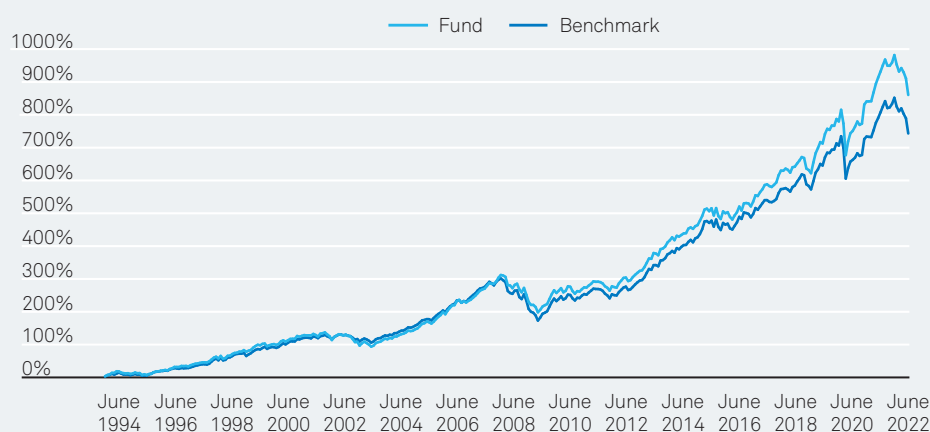
¹ Fund inception: 30/09/1992. ² Fund inception: 30/09/1992. ³ Fund inception: 30/04/1992.

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 June 2022



Performance Summary

Market Overview – Q2 2022

The second quarter of the year was marked by volatility, with equities and fixed income selling off on the back of recessionary concerns, high inflation, and tightening financial conditions. Global equities finished the quarter down 15.5%, with Emerging Markets outperforming Developed Market counterparts. Fixed income markets were challenged by higher yields particularly at the start of the quarter, before reclining downwards towards the end of June amidst concerns that policy tightening may hurt the economy.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

US

In the US, the S&P 500 Index declined by 16.1% over the quarter, and by 8.3% over the month of June (in local currency terms). All sectors, including Energy, declined over the month as growth concerns weighed on investor sentiment.

The Federal Reserve (Fed) increased the policy rate by 125bps over the second quarter, as the Fed continues to battle with tightening labour markets and elevated inflationary readings. Headline inflation accelerated further in May, rising 8.6% over the year, with gasoline, food and shelter prices contributing to the increase. While the unemployment rate remained at 3.6% for the third month in a row, consumer confidence index fell sharply as consumer resiliency was tested by the future prospect of persistent inflation. Meanwhile, the Manufacturing PMI index declined from 57 to 52.7 in June, marking the slowest growth in factory activity since July 2020. Market-based interest rate expectations re-priced downwards towards the end of June, reflecting concerns that central banks may be stalling the restart with higher policy rates.

Europe

European equity markets represented through the Euro Stoxx 600 Index declined by 10.1% in the second quarter, and by 9.3% in June (in local currency terms) as ongoing concerns around Europe's heavy reliance on Russian oil and natural gas continued to raise risks of economic deceleration.

Within the European block, annual flash headline inflation hit an all-time high of 8.6% in June. Rising food and energy prices, alongside growing core inflation readings, have continued to add to concerns that high inflation may become entrenched in the region. The Euro Area economic sentiment slipped in May as consumers saw increasing headwinds to the outlook. The European Central Bank (ECB) further reiterated the possibility of a rate hike in July and an exit to negative interest rates by the end of Q3.

While the UK equity market outperformed most other major Developed markets, it still declined by 3.7% over the quarter and 5.5% over June (in local currency terms). The Bank of England (BoE) hiked rates by 50bps over the period as UK inflation soared to 9.1% in May, the highest reading in more than 40 years. The unemployment rate rose slightly to 3.8% in the three months through April, marking the first increase in over a year. Meanwhile, consumer confidence fell to its lowest historic levels as consumers battled with renewed economic fears and experienced the squeeze from negative real wage growth. The deterioration in sentiment is in spite of the Chancellor's announced fiscal measures to help offset rising household costs alongside a '25% Energy profits Levy' on UK energy firms to ease the cost of living crisis. The UK manufacturing PMI fell further to 52.8 in June, as new orders contracted at the fastest rate in two years.

Asia

Asian equities rebounded over the quarter, driven by the rebound in activity across China. Specifically, Chinese equities, as represented by the CSI 300, rose 7.3% in the second quarter, after declining by over 15% in the first quarter. Economic data within China have appeared to bottom, with retail sales and industrial production figures for May surprising on the upside. The official manufacturing PMI rose to 50.2 in June, marking the first time it has crossed the 50 expansionary threshold since February. Chinese banks cut key interest rates for long-term loans with the five-year loan prime rate reduced to 4.45% alongside more than 140 billion yuan in tax relief offered to companies and consumers to offset the heavy impact of COVID lockdowns.

Japanese equities, as represented by the TOPIX Index, declined by 3.7% over the quarter and by 2.1% in June (in local currency terms), as the economy battles with slowing manufacturing growth and rising inflation. The Bank of Japan (BOJ) continued to maintain its stance of defending its yield target despite core consumer prices rising 2.1% y/y in May, ahead of the BOJ's 2% target.

Australia

The S&P/ASX300 Accumulation Index detracted by 12.2% over the quarter, and by 9.0% over June, underperforming most other developed markets amid ongoing uncertainty around the domestic inflation and policy outlook. The Reserve Bank of Australia (RBA) increased the cash rate by 75bps over the second quarter, with further hikes expected in the coming months. There are initial signs of increasing wage growth in Australia after a decade of low growth, with a growing share of businesses reporting larger wage payouts amid a tightening labour market.

Fixed Income

Fixed Income markets were challenged over the second quarter, as investors priced in more aggressive expectations for monetary tightening. The US 10 year yield rose by 67bps to end the quarter at 3.0%, and the Australian 10 year yield rose by 82bps to finish the quarter at 3.7%. The rise in rates created near-term headwinds for fixed income returns, with Australian composite bond index declining by 3.8% and Global Agg index declining by 4.7% over the quarter. Riskier parts of the fixed income markets, such as emerging markets debt and high yield indices underperformed over the period as spreads widened.

Commodities & FX

Energy retraced some of its gains in June following strong performance at the start of the quarter, as global demand began showing signs of weakening. Within currencies, the USD trade-weighted index strengthened by 2.9% in June, whilst the Australian trade-weighted index depreciated by 2.2% over the period.

Strategy Commentary – Q2 2022

The BlackRock Tactical Growth Fund declined 8.06% in Q2 (after fees), ahead its diversified benchmark which detracted 8.32%.

Looking at total returns over the quarter, growth assets including Australian Equities and International Equities were the greatest detractors over the period. The Fund's more defensive asset classes, primarily Australian Fixed income, Global High Yield and International Fixed income also contributed negatively to overall performance. Global Listed Infrastructure and Gold were the only asset classes that generated positive performance in Q2 and helped somewhat support overall portfolio returns.

The Fund outperformed its diversified benchmark in Q2 (after fees). Allocations to a global macro strategy and market-neutral style premia strategy drove the returns in the active return space and provided material protection. Security selection in International Property and International Equities detracted from active returns in Q2. Active contributions from Global Fixed Income, Australian Fixed Income and Australian Equities were relatively muted.

Outlook and Positioning

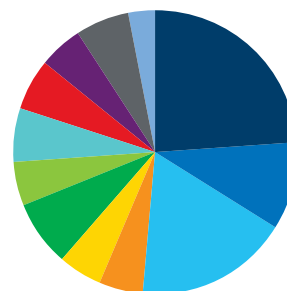
The perfect storm of high inflation rates, hawkish central bank rhetoric and action, as well as slowing global growth concerns have spurred uncertainty, these themes continue to dominate the market backdrop.

The US Federal Reserve (Fed) hiked its policy rate by 125bps over the quarter and have signalled there is likely more to come. This policy stance is fairly consistent across many developed economies as the respective central banks look to unwind much (if not all) of the monetary stimulus that was added since March 2020- the speed and severity of interest rate hikes expected both this year and next is unprecedented in the era of central bank inflation targeting. The notable exception to that position is China where the authorities continue to effect fairly tight restrictions around COVID outbreaks and commensurately, economic growth has suffered. For all the concern about containing inflation, we see policymakers ultimately living with somewhat higher inflation than they would necessarily prefer- particularly as it relates to inflation that is being driven by supply issues, rather than being driven strictly by demand. The trade-off between growth and inflation will likely become more apparent in the months to come as some of the COVID restart dynamics start to wane and the effect itself of monetary policy tightening starts to impact on economies more broadly.

In terms of portfolio positioning and key return drivers, our strategic diversified benchmark is our primary source of risk. Our portfolio's allocations to Listed Infrastructure, Australian and US Inflation Linked Bonds and Gold have historically served as ballast and provide resiliency in a higher inflationary/lower growth 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, we are relatively neutrally positioned. We have low-cost option hedges in relation to our high yield allocation. We are underweight bonds in the US and Europe across the curve and overweight in Australia- particularly at the shorter-end where the markets already expect a steep and swift series of interest rate hikes from the RBA out to the middle of next year- which we think is overly aggressive. While we remain cautious overall on duration, we think the idiosyncrasies of the Australian economy- particularly household indebtedness, makes this an appealing place to express a long duration exposure. Moreover, this long duration position helps offset short duration exposures elsewhere in the portfolio. 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	-8.97	-2.15
International Shares - unhedged	10.00	-4.64	-0.46
International Shares - hedged	17.50	-8.10	-1.42
International Infrastructure	5.00	-2.26	-0.11
International Property	5.00	-4.75	-0.24
Emerging Market Equity	7.50	-2.61	-0.20
Australian Bonds	5.00	-1.48	-0.07
Aust. Inflation-Linked Bonds	6.00	-2.23	-0.13
US Inflation-Linked Bonds	6.00	-3.50	-0.21
Global High Yield	5.00	-7.04	-0.35
Gold	6.00	2.22	0.13
Cash	3.00	0.05	0.00

Total Benchmark Return: -5.21

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	440 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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