

BLACKROCK TACTICAL GROWTH FUND

BLACKROCK®

FUND UPDATE

31 July 2022

Investment Performance (%)

	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Tactical Growth Fund (Gross of Fees) ¹	4.45	-2.56	-7.29	-4.50	5.38	8.09	-
Diversified Benchmark [*]	4.61	-2.32	-7.34	-4.65	3.98	6.84	-
Outperformance (Gross of Fees)	-0.17	-0.24	0.05	0.14	1.40	1.25	-
BlackRock Tactical Growth Fund (Net of Fees) ²	4.37	-2.77	-7.75	-5.31	4.50	7.19	7.72
Diversified Benchmark [*]	4.61	-2.32	-7.34	-4.65	3.98	6.84	8.02
Outperformance (Net of Fees)	-0.24	-0.44	-0.41	-0.66	0.52	0.35	-0.30
BlackRock Balanced Fund (Net of Fees) ³	4.37	-2.76	-7.74	-5.30	4.00	6.45	6.51
Diversified Benchmark [*]	4.61	-2.32	-7.34	-4.65	3.98	6.84	7.93
Outperformance (Net of Fees)	-0.24	-0.43	-0.39	-0.66	0.02	-0.39	-1.42

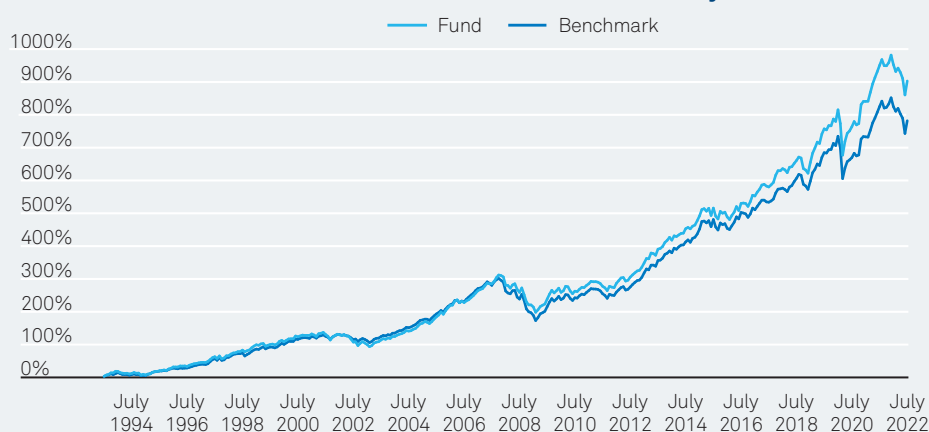
¹ Fund inception: 30/09/1992. ² Fund inception: 30/09/1992. ³ Fund inception: 30/04/1992.

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 31 July 2022



Performance Summary

Market Overview – July 2022

Risk assets recovered some of their earlier losses in July as markets pared back expectations for monetary tightening amid a deteriorating growth outlook. Global equities, as represented by the MSCI World Index, finished the month up 6.4% in Australian dollar terms, with Developed markets outperforming Emerging market counterparts. Fixed income markets, as represented by the Bloomberg Barclays Global Aggregate Index, were offered some respite from prior months of rising rates, closing the month at +2.5% for the Australian dollar hedged investor.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

US

In the US, the S&P 500 Index increased by 9.2% in July (in local currency terms), outperforming most major markets as positive Q2 corporate earnings surprises provided a boost to risk sentiment. Sectors like IT and Consumer Discretionary outperformed during the month.

The US Federal Reserve (Fed) increased the policy rate by a further 75bps in July, as it sought to anchor inflation expectations amid recent elevated inflation prints. Headline inflation accelerated further in June, rising 9.1% over the year, with gasoline, food and shelter prices contributing to the increase. While the unemployment rate remained at 3.6% for the fourth month in a row, consumer confidence index fell sharply as consumer resiliency was tested by the future prospect of persistent inflation. Q2 GDP added to growth concerns with real GDP growth declining for the second consecutive quarter to print at -0.9% quarter on quarter.

Europe

European equity markets, as represented through the Euro Stoxx 50 Index increased by 7.4% in July (in local currency terms) despite ongoing growth concerns. Within the European block, annual flash headline inflation hit an all-time high of 8.9% in July. 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. High inflation pushed the European Central Bank (ECB) to hike rates for the first time in over a decade, taking the deposit rate out of negative territory.

Meanwhile, the UK equity market increased by 3.7% (in local currency terms), underperforming most major developed markets following prior months of outperformance. The unemployment rate stabilized at 3.8% in the three months through May, though the growth in job vacancies continued to weaken. Consumer confidence remained at a historic low as consumers battled with renewed economic fears and experienced the squeeze from negative real wage growth.

Asia

Asian equities were a mixed bag over the month, with Chinese equities slowing and Japanese equities rebounding. China's CSI 300 Index fell by 6.3% in July, following an increase of 10.4% in June. Sentiment was dragged down by concerns around the domestic real estate market and lockdown measures implemented as part of China's zero-COVID strategy. That said, economic data continued to surprise to the upside with industrial production rising and retail sales beating expectations, easing some concerns around global supply chain pressures.

Japanese equities, as represented by the TOPIX Index, rose by 3.7% in July (in local currency terms), as the weaker Japanese Yen helped support manufacturers and exporters. The Bank of Japan (BOJ) continued to maintain its stance of defending its yield target despite core consumer prices rising 2.2% y/y in June, ahead of the BOJ's 2% target.

Australia

The S&P/ASX 300 Accumulation Index increased by 6.0% in July, following its -9.0% decline in June. The Reserve Bank of Australia (RBA) increased the cash rate by 50bps in July, 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 labor market.

Fixed Income

Fixed Income markets were offered some respite in July, as global growth concerns saw bond yields ease slightly from their recent highs. The US 10-year yield declined by 36bps to end the month at 2.7%, and the Australian 10-year yield declined by 60bps to finish the month at 3.1%. The paring back in rates supported fixed income returns, with the Australian composite bond index returning 3.4% and Global Agg index delivering 2.5% over the month. Riskier parts of the fixed income markets, such as emerging markets debt and high yield indices also rebounded, supported by an improved risk sentiment.

Commodities & FX

Energy retraced some of its gains in July following strong performance in the first half of the year, as global demand began showing signs of weakening. Within currencies, the USD strengthened by 0.6% in July, whilst the Australian trade-weighted index increased by 2.1%. The appreciation of the Australian dollar saw hedged global equities outperforming that of its unhedged counterpart in July.

Strategy Commentary – July 2022

The BlackRock Tactical Growth Fund gained 4.37% in July (after fees), behind its diversified benchmark which gained 4.61%.

Looking at total returns over the month, growth assets including Australian Equities and International Equities were the greatest contributors over the period. The Fund's more defensive asset classes, primarily Australian Fixed income, Global High Yield and International Fixed income also contributed positively to overall performance. Emerging Market Equities and Gold were the only asset classes that experienced negative performance in July and somewhat detracted from overall portfolio returns.

The Fund underperformed its diversified benchmark in July (after fees). Our Global Macro strategy which has material short positions in European and US interest rates lost ground in July, having been a strong performer so far this year. Additionally, Security selection in Australian Equities and International Equities detracted slightly from active returns in July. Active contributions from Australian Bonds and Global REITS and Infrastructure were relatively muted over the period. Our high-conviction long position in shorter-dated Australian bonds provided some offset to the underperformance elsewhere in the portfolio as rate hike expectations for the RBA were pared back.

Outlook and Positioning

The month of July provided some respite from the past few months performance. However, high inflation rates, hawkish central bank rhetoric and action, as well as slowing global growth concerns continue to be a theme of markets.

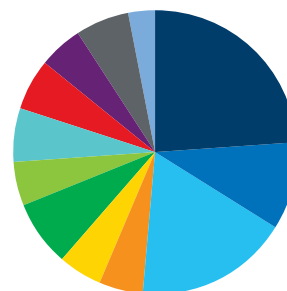
The US Federal Reserve (Fed) hiked its policy rate by 75bps once again in July, have signalled there is likely more to come and reiterated its commitment to 2% inflation objective. This commitment is consistent across many developed economies as the respective central banks look to unwind much (if not all) of the monetary stimulus that was added in during pandemic. The speed and severity of interest rate hikes delivered and to come this year and into early 2023 is unprecedented in the era of central bank inflation targeting. The European Central Bank hiked its interest rate for the first time in more than a decade by 50bps. The Bank of England hiked its interest rates by 50bps, first such hike since 1997 and projected that the UK economy is poised to enter recession later this year. Locally, the Reserve Bank of Australia hiked its Official Cash Rate (OCR) by 50bps in July to 1.85% and continues to suggest more rate hikes are to come.

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 our view, The Great Moderation – a long period of steady growth and low inflation is over and expect volatility across the market.

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 first quarter 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	5.95	1.43
International Shares - unhedged	10.00	6.40	0.64
International Shares - hedged	17.50	7.96	1.39
International Infrastructure	5.00	3.21	0.16
International Property	5.00	6.39	0.32
Emerging Market Equity	7.50	-1.70	-0.13
Australian Bonds	5.00	3.36	0.17
Aust. Inflation-Linked Bonds	6.00	4.75	0.28
US Inflation-Linked Bonds	6.00	4.44	0.27
Global High Yield	5.00	5.61	0.28
Gold	6.00	-3.42	-0.21
Cash	3.00	0.12	0.00
Total Benchmark Return:			4.61

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	454 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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