

BLACKROCK TACTICAL GROWTH FUND

BLACKROCK®

FUND UPDATE

30 September 2022

Investment Performance (%)

	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Tactical Growth Fund (Gross of Fees) ¹	-4.84	-1.20	-12.31	-9.60	3.04	6.47	
Diversified Benchmark*	-5.23	-2.15	-13.34	-10.38	1.30	5.11	-
Outperformance (Gross of Fees)	0.38	0.95	1.03	0.78	1.74	1.36	-
BlackRock Tactical Growth Fund (Net of Fees) ²	-4.91	-1.41	-12.86	-10.37	2.18	5.58	7.47
Diversified Benchmark*	-5.23	-2.15	-13.34	-10.38	1.30	5.11	7.73
Outperformance (Net of Fees)	0.32	0.74	0.47	0.01	0.88	0.47	-0.26
BlackRock Balanced Fund (Net of Fees) ³	-4.90	-1.41	-12.84	-10.35	1.76	4.89	6.27
Diversified Benchmark*	-5.23	-2.15	-13.34	-10.38	1.30	5.11	7.65
Outperformance (Net of Fees)	0.33	0.74	0.49	0.03	0.46	-0.21	-1.38

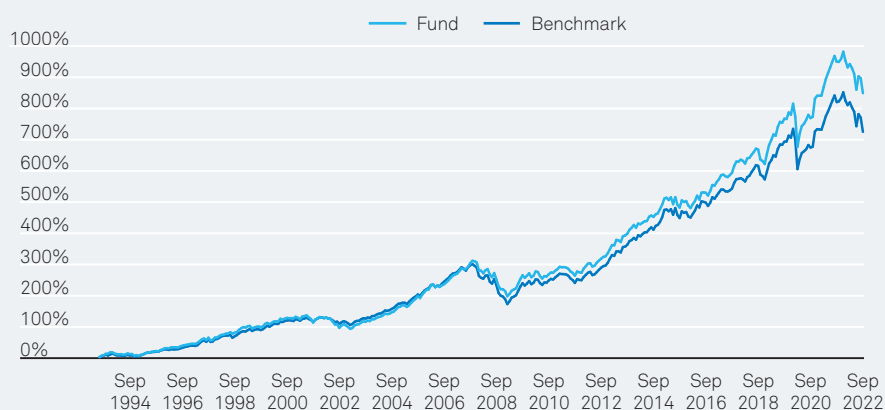
¹ Fund inception: 30/09/1992. ² Fund inception: 30/09/1992. ³ Fund inception: 30/04/1992.

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 September 2022



Performance Summary

Market Overview – Q3 2022

The third quarter of the year proved grim for investors. Following a short-lived bear market rally in July, global equities resumed their sell-off in August and September, leaving the MSCI World Index roughly flat at +0.3% over the quarter in Australian dollar terms. The depreciation in the Australian dollar provided some offset to the fall in global share prices, with unhedged equities outperforming their hedged counterparts. Meanwhile, Developed Markets held up better than Emerging Markets

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- Unit Prices

amidst heightened volatility. Historically aggressive rate hikes by several central banks around the world saw Fixed Income markets, as represented by the Bloomberg Barclays Global Aggregate Index, close the third quarter down -3.8% for the Australian dollar hedged investor.

US

In the US, the S&P 500 Index declined by -4.9% over the quarter and by -9.2% in September (in local currency terms), with most sectors falling over the period. The US Federal Reserve (Fed) hiked interest rates twice by 75bps over the quarter and is on its fastest rate hiking cycle since the early 1980s. The Fed also published a new set of interest rate projections in September which predicted the Fed funds rate will rise to 4.6% by the end of 2023, a significant increase from prior views. While US inflation declined slightly for two consecutive months, the August inflation rate of 8.3% was above market consensus of 8.1% and remains elevated. The US labour market also remains tight as weekly jobless claims reached a five-month low in late September.

Europe

European equity markets, as represented through the Euro Stoxx 50 Index, decreased by -3.7% in the third quarter and -5.6% in September (in local currency terms). Europe's efforts to wean itself off Russian energy have triggered a price surge, with the European Union now spending nearly 12% of its GDP on energy alone, and annual flash headline inflation within the European block hit an all-time high during the quarter. Following their initial lift-off in July, the European Central Bank (ECB) took a hawkish stance by announcing a record 75bps rate hike in September and hinted at further hikes over the next few months.

The UK equity market declined by -2.7% over the quarter and by -5.2% in September (in local currency terms). UK financial markets were roiled by Chancellor Kwarteng's mini-budget which planned to increase debt borrowing to fund tax cuts and energy support measures, driving significant volatility and dislocation across asset classes. The government's new economic agenda was viewed by many as inflationary and a challenge to the government's fiscal credibility, with markets sharply repricing to reflect expectations of tighter monetary policy. Although the unemployment rate remained subdued at 3.6% in the three months through July, consumer confidence fell to an all-time low in September.

Asia

Asian equities broadly sold off over the month and quarter. China's CSI 300 Index fell by -14.3% over the quarter and by -6.7% in September (in local currency terms), as sentiment weakened due to ongoing concerns around the domestic real estate market and lockdown measures implemented as part of China's zero-COVID strategy. In the lead up to the key 20th Communist Party Congress in October, China's large banks trimmed their deposit rates in September. This follows the People's Bank of China (PBoC) lowering its benchmark lending rates earlier in the quarter, amidst concerns of a slowing Chinese economy.

Japanese equities, as represented by the TOPIX Index, fell by -0.8% over the quarter and by -5.5% in September (in local currency terms). For the first time since 1998, the Japanese Ministry of Finance (MoF) intervened in currency markets in September to defend the Japanese yen from further weakness against the US dollar. The Bank of Japan (BOJ) continued to maintain its stance of defending its yield target despite core consumer prices rising 2.8% YoY in August ahead of expectations and above the BOJ's 2% target.

Australia

The S&P/ASX 300 Accumulation Index gained slightly (+0.5%) over the quarter but fell sharply (-6.3%) in September. Energy and material sectors were amongst the best performing sectors over the period, while utilities and real estate sectors declined. The Reserve Bank of Australia (RBA) continued its hiking cycle over the quarter, although Governor Lowe signaled that the pace of rate hikes may slow in coming months as the Bank monitors its impact on the economy. Australia's unemployment rate unexpectedly rose to 3.5% in August following its drop in July. Meanwhile, Australian house prices fell by -4.1% nationally over the quarter (as represented by the CoreLogic Home Value index) as headwinds from higher rates started to factor in.

Fixed Income

Fixed Income markets were challenged again by higher bond yields over the quarter as central banks reaffirmed their intention to rein in inflation through tighter monetary policy. The US 10-year yield rose by +82bps to end the quarter at 3.8% and the Australian 10-year yield rose by +23bps to end the quarter at 3.9%. The rise in rates saw bond prices decline. As such, the Global Agg index declined by -3.8% over the quarter and the Australian composite bond index by -0.6%. Riskier parts of the fixed income markets, such as emerging markets debt and investment grade credit indices also broadly declined as risk sentiment soured and spreads widened.

Commodities & FX

Despite ongoing supply headwinds, energy prices retraced gains over the third quarter amidst signs of a slowdown in global demand. Within currencies, the USD strengthened by +6.1% over the quarter against its developed market peers, and the Australian dollar weakened significantly by -7.3% against the US dollar. The depreciation of the Australian dollar acted as a welcome buffer for international equity investors, as it meant that the fall in global share prices was less pronounced from an unhedged perspective.

Strategy Commentary – Q3 2022

The BlackRock Tactical Growth Fund recorded performance of -1.41% in Q3 (after fees), ahead of its diversified benchmark which declined 2.15%. The fund outperformed by 0.74% (after fees) in the third quarter.

Looking at total returns over the quarter, growth assets such as International Equities, Emerging Market Equities and International Properties detracted whilst Australian Equities proved more resilient and contributed over the period. The Fund's more typical defensive asset classes, primarily International Fixed Income, Australian Fixed Income and Global High Yield also contributed negatively to overall performance. The allocation to International Infrastructure and Gold also detracted. Having much of our international growth assets as unhedged to currency movements helped meaningfully in the quarter- the Australian Dollar was one of the weaker developed market currencies amidst a backdrop of a broad-based strong United States Dollar.

The Fund outperformed its diversified benchmark meaningfully in Q3 (after fees). The key contribution to active performance came from Global Macro, which enables the fund to take in macro-driven, high conviction tactical views. The allocation to market-neutral style premia strategy and International Equities also drove active returns. Additionally, allocations into liquid alternatives and Global High Yield within global fixed income were also additive to performance. Active contributions from Australian Bonds, Australian Equities and Global REITS & Infrastructure were relatively muted over the quarter.

Outlook and Positioning

Q3 saw the resumption of weakness across most asset classes. High inflation rates, hawkish central bank rhetoric and action, as well as slowing global growth concerns continue to take centre stage.

At the annual Jackson Hole symposium, the US Federal Reserve (Fed) chairman Jerome Powell spoke briefly but pointedly, leaving little doubt that the Fed is committed to fight inflation, and while inflation might have peaked, the job is far from over. The base case scenario is the Fed continuing to hike interest rates through this year, and into 2023. The US Federal Reserve hiked its interest rates by 150bps over the quarter.

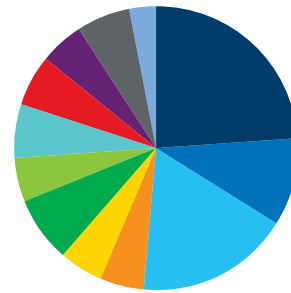
Locally, the Reserve Bank of Australia also hiked its Official Cash Rate (OCR) by 150bps in the third quarter to 2.35% and continues to suggest more rate hikes are to come as it is committed to returning inflation to the 2-3% range over time.

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 primarily driven by supply issues, rather than being driven strictly by demand. In near term, we expect central banks to overtighten policy causing economic damage – and flare-ups of financial stability risk. We are in a new world shaped by supply. Major spending shifts and production constraints are driving inflation. Production constraints are rooted in the pandemic and have been exacerbated by the war in Ukraine and China's lockdowns. The past quarter has brought into sharp focus the end of the Great Moderation – and the new regime of heightened economic and market volatility. Markets are grappling with the worsening trade-off policymakers face between growth and inflation.

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.

Relative to our strategic benchmark, we are relatively neutrally positioned. We are underweight bonds in the US and Europe and overweight in Australia- particularly at the shorter-end where markets continue to 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	0.45	0.13
International Shares - unhedged	10.00	0.35	0.04
International Shares - hedged	17.50	-5.18	-0.89
International Infrastructure	5.00	-4.02	-0.20
International Property	5.00	-5.44	-0.27
Emerging Market Equity	7.50	-5.42	-0.40
Australian Bonds	5.00	-0.64	-0.03
Aust. Inflation-Linked Bonds	6.00	-1.91	-0.11
US Inflation-Linked Bonds	6.00	-5.96	-0.35
Global High Yield	5.00	-1.04	-0.05
Gold	6.00	-0.97	-0.05
Cash	3.00	0.42	0.02

Total Benchmark Return: -2.15

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	415 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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