

# BLACKROCK TACTICAL GROWTH FUND

# BLACKROCK®

FUND UPDATE

31 July 2023

## Investment Performance (%)

	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Tactical Growth Fund (Gross of Fees) <sup>1</sup>	2.14	2.54	10.22	10.23	8.59	7.77	-
Diversified Benchmark*	2.15	2.47	9.55	7.82	7.32	6.13	-
Outperformance (Gross of Fees)	-0.01	0.07	0.67	2.41	1.27	1.64	-
BlackRock Tactical Growth Fund (Net of Fees) <sup>2</sup>	2.07	2.33	9.75	9.37	7.70	6.88	7.77
Diversified Benchmark*	2.15	2.47	9.55	7.82	7.32	6.13	8.01
Outperformance (Net of Fees)	-0.08	-0.14	0.19	1.55	0.38	0.75	-0.24
BlackRock Balanced Fund (Net of Fees) <sup>3</sup>	2.06	2.33	9.73	9.35	7.43	6.36	6.60
Diversified Benchmark*	2.15	2.47	9.55	7.82	7.32	6.13	7.93
Outperformance (Net of Fees)	-0.08	-0.14	0.17	1.53	0.12	0.23	-1.33

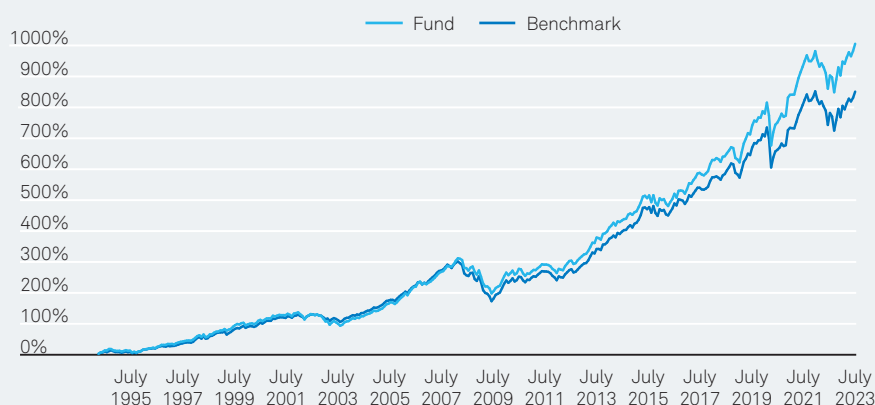
<sup>1</sup> Fund inception: 30/09/1992. <sup>2</sup> Fund inception: 30/09/1992. <sup>3</sup> Fund inception: 30/04/1992.

Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised.

\* Please note that effective from 31 March 2023 the index and its weights representing the performance benchmark for the BlackRock Tactical Growth Fund have changed slightly to reflect the latest changes to the Fund's strategic asset allocation (i.e. the composite benchmark). This is reflected in the historical benchmark performance, with returns prior to 31 March 2023 reflecting those of the old benchmark weights while returns after this date reflect those of the updated benchmark weights.

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 Accumulation Index, MSCI World ex Aus Net Total Return Index, MSCI World ex Aus Hedged Index, FTSE EPRA Nareit Developed Net Total Return Index, FTSE Developed Core Infrastructure 50/50 Net Tax Index, MSCI Emerging Markets Net Index, Refinitiv Gold Fixing Price Index, Bloomberg AusBond Composite 0+ Yr Index, Bloomberg AusBond Inflation Government Index, Bloomberg US Govt Inflation-Linked Hedged Index, ICE BofA Developed Markets HY Constrained Hedged Index, Bloomberg AusBond Credit 0+ Yr Index and Bloomberg AusBond Bank Bill Index.

## Cumulative Performance (Gross of fees) to 31 July 2023



## Performance Summary

### Market Overview – July 2023

Positive investor sentiment and easing inflation saw most major asset classes continue to push higher in July. Global equities, as measured by the MSCI World Index, increased 2.1% over the month in Australian dollar terms with the rally broadening out across sectors as markets embraced the soft economic landing narrative. Emerging Markets outperformed their Developed Market counterparts, partly boosted by Chinese equities which were supported by hopes of further government stimulus. Fixed Income markets, as represented by the Bloomberg Barclays Global Aggregate Index (hedged),

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

were broadly flat across the period alongside additional policy tightening by global central banks.

### United States

In the US, the S&P 500 Index increased by 3.2% over the month (in local currency terms), with Energy and Communication Services sectors among the best performers. While gains over the first half of 2023 were led by a handful of mega cap tech stocks, July saw a broad-based rally with every sector rising. Markets were also buoyed by a relative easing in price pressures, as core inflation recorded a 4.8% year-on-year increase in June – the weakest inflation result since October 2021 – while the unemployment rate remained low. On the monetary front, the US Federal Reserve (Fed), increased its policy rate by 25 basis points over the month and signalled a more data-dependent approach to future interest rate hikes. The Fed appears unconvinced that inflation is on track to durably come back to its target level amid a historically tight labour market.

### Europe

European equities, as represented through the Euro Stoxx 50 Index, increased by 1.7% in July (in local currency terms). European earnings results have beaten expectations for Q2 but remain lower compared to last year. The European Central Bank (ECB) increased rates by 25 basis points over the month to bring the deposit rate to 3.75% and markets are expecting rates to remain well above pre-pandemic levels over the medium-term. There are also signs the ECB's hiking campaign is causing some economic damage, as reflected by the Eurozone PMI reading which dropped further in July to indicate an economic contraction and painted a particularly bleak picture across France and Germany.

In the UK, the FTSE 100 Index gained 2.3% in July (in local currency terms). Market pricing for how far the Bank of England (BoE) may increase rates fell after core inflation of 6.9% for June was below economist forecasts. Despite 13 consecutive rate hikes since December 2021, the BoE appears likely to further tighten policy settings in its upcoming meeting but is considering whether to slow the pace of rate rises. Earlier in the month, UK wage data showed stronger-than-expected growth in June and the unemployment rate ticked higher to 4.0%.

### Asia

Asian equity markets were mixed over the period. China's CSI 300 Index rebounded by 5.4% in July (in local currency terms), amid investor speculation of large-scale government stimulus. China's Politburo met during the month and set a supportive policy tone for the second half of 2023 by pledging to ease property sector restrictions and address local government debt, while the State Council also announced additional measures late in July. Senior leaders acknowledged the challenges facing China's economy and vowed to step up government support to reverse waning domestic demand. This comes as Chinese exports shrank in June and the Caixin manufacturing PMI slipped below 50 in July, signalling an economic contraction.

Japanese equities, as represented by the Nikkei 225 Index, were flat in July (in local currency terms), having materially outperformed their developed market peers over the first half of 2023. Persistent domestic inflation had added pressure on the Bank of Japan (BoJ) to adjust its ultra-loose monetary policy in July, with the central bank expanding the range by which the 10-year government bond yield can trade within. The decision to relax controls on Japanese yields caught investors off-guard, leading the Japanese yen to rally and stocks to underperform over the month. Meanwhile, core inflation in Japan rose by 3.3% year-on-year for June in line with expectations.

### Australia

The S&P/ASX 300 Accumulation Index gained 2.9% in July, with Energy and Information Technology among the best performing sectors. Early in the month, the Reserve Bank of Australia (RBA) held interest rates steady at 4.10%, but signalled future rate hikes may still be required. The first female Governor in the RBA's history was also appointed and the current Deputy Governor, Michele Bullock, will replace incumbent Governor, Phillip Lowe, in September. Meanwhile, Australian headline inflation surprised to the downside and fell to 6.0% across the second quarter, although the labour

market remains tight with unemployment falling to 3.5% over the month. Australian house prices continued to rebound in July and the CoreLogic Home Value index posted a 0.7% rise led by capital city housing.

### Fixed Income

Fixed income markets were mixed across the period. Several rate hikes by major central banks and the BoJ's decision to relax controls on Japanese yields kept volatility across government bonds elevated. Over the month, the US and Australian 10-year yields rose modestly by 12 basis points and 4 basis points to end July at 4.0% and 4.1% respectively. The Global Aggregate index (hedged) finished the month flat, while the Australian composite bond index gained 0.5% over July. Riskier parts of the fixed income markets, such as corporate credit and emerging market debt indices, realised gains as credit spreads tightened amid risk-on sentiment.

### Commodities & FX

Commodity and energy prices recovered strongly over the month. Industrials metals were positive, with Iron Ore and Copper rising 0.1% and 6.6% respectively, while Gold gained 2.4% alongside weaker inflation prints. Oil prices outperformed in July and rose sharply by 13.5% as OPEC+ announced supply cuts, with Saudi Arabia – the largest global exporter of crude oil – voluntarily extending its lower production target. Within currencies, the US dollar depreciated against its developed market peers, weakening by 1.2% across the period. The Australian dollar appreciated by 0.8% against the US dollar, as stronger commodity prices pushed the domestic currency higher.

## Strategy Commentary – July 2023

The BlackRock Tactical Growth Fund recorded a positive return for July of 2.07% (after fees), compared to its diversified benchmark which rose by 2.15% over the month.

In terms of absolute performance, growth assets realised gains across the period, namely Global Equities, Australian Equities and Emerging Market Equities. Global Property and Global Infrastructure also contributed over the month. The Fund's more defensive asset classes added to performance in July, including Australian Inflation Linked Bonds, Global High Yield Corporate Bonds, Australian Investment Grade Corporate Bonds and Australian Fixed Income. US Inflation Linked Bonds modestly detracted over the month, while the defensive allocation to Gold further contributed across the period.

On the active front, the Fund underperformed its diversified benchmark in July by -0.08% (after fees). Global Equities was the largest detractor as stock selection in China, Taiwan and Korea weighed on active performance, while positioning across information technology and financials also detracted. Furthermore, the Emerging Market Equities strategy detracted due to stock selection across the period. The Fund's Market-Neutral Style Premia strategy also underperformed its benchmark, but remains a strong contributor over the past year. Australian Equities was the largest contributor in July, driven by the Australian systematic strategy which benefited from machine learned Timing insights and positioning across materials and financials. The Fund invests in a Global Macro strategy that takes overweight and underweight positions across asset classes and regions. This sub-strategy further contributed alongside tactical portfolio tilts which were additive over the month.

## Outlook and Positioning

Global markets trended higher over July and developed economies showed signs of resilience. Although the Fed and ECB continued to lift policy rates and the BoJ widened its target band for Japanese yields, these policy adjustments by central banks were generally in-line with expectations and risk assets held onto their gains. Equities also benefitted from the rally broadening out across sectors as investors embraced the "soft" economic landing narrative. Going forward, the next round of global inflation releases are in the spotlight, while the pricing for future rate hikes are the lowest since central banks began their monetary tightening cycle.

On the domestic front, the RBA held the official cash rate at 4.10%. With recent inflation prints showing declines, the central bank kept policy

settings unchanged to provide time to assess the impact of prior rate rises and highlighted concerns around an uncertain economic environment. However, unemployment remains well below the 4.5% level the RBA has said is needed to bring the economy back into balance amid a tight labour market.

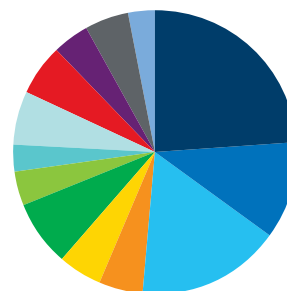
The past year has provided further evidence that we are in a new macro regime that provides different but abundant investment opportunities. Persistent supply constraints are compelling major central banks to hold policy tight, creating greater macroeconomic and market volatility.

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 take a relatively more constructive view on growth assets. We are underweight bonds in the US and Europe and overweight in Australia at the shorter-end of the government bond market. While we remain cautious overall on duration, we think the idiosyncrasies of the Australian economy – particularly household indebtedness coupled with a concentration to floating rate debt – 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 have some tactical option exposures in US equities that would partially offset our exposure should market momentum and the strong gains we've seen year-to-date reverse.

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, higher cross-asset correlations, ongoing geopolitical tensions and a likely increase in growth volatility for developed market economies going forward.

#### Benchmark Allocation



Asset Class	Benchmark Weight (%)	Market Performance	Contribution to Benchmark Return
Australian Shares	24.00	2.89	0.69
International Shares - unhedged	11.00	2.09	0.23
International Shares - hedged	16.50	2.84	0.47
International Infrastructure	5.00	0.33	0.02
International Property	5.00	2.50	0.13
Emerging Market Equity	7.50	4.93	0.37
Australian Bonds	4.00	0.52	0.02
Australian Corporate Bonds	3.00	0.85	0.03
Aust. Inflation-Linked Bonds	6.00	0.92	0.06
US Inflation-Linked Bonds	6.00	-0.04	0.00
Global High Yield	4.00	1.31	0.05
Gold	5.00	1.55	0.08
Cash	3.00	0.37	0.01

**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	417 mil
Buy/Sell Spread	0.12%/0.12%
Management Fee	0.85% p.a.

BlackRock Balanced Fund	
APIR	PWA0013AU
Management Fee	0.85% p.a.

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