

BLACKROCK TACTICAL GROWTH FUND

BLACKROCK®

FUND UPDATE

31 August 2023

Investment Performance (%)

| | 1 Mth | 3 Mths | CYTD | 1 Yr | 3 Yrs | 5 Yrs | Inc |
|---|-------|--------|-------|-------|-------|-------|-------|
| BlackRock Tactical Growth Fund (Gross of Fees) ¹ | -0.14 | 3.64 | 10.06 | 10.73 | 7.88 | 7.44 | - |
| Diversified Benchmark* | -0.37 | 3.08 | 9.14 | 8.84 | 6.57 | 5.69 | - |
| Outperformance (Gross of Fees) | 0.23 | 0.56 | 0.92 | 1.89 | 1.31 | 1.75 | - |
| BlackRock Tactical Growth Fund (Net of Fees) ² | -0.22 | 3.43 | 9.51 | 9.86 | 7.00 | 6.56 | 7.74 |
| Diversified Benchmark* | -0.37 | 3.08 | 9.14 | 8.84 | 6.57 | 5.69 | 7.98 |
| Outperformance (Net of Fees) | 0.16 | 0.35 | 0.37 | 1.02 | 0.43 | 0.87 | -0.24 |
| BlackRock Balanced Fund (Net of Fees) ³ | -0.22 | 3.42 | 9.49 | 9.84 | 6.75 | 6.05 | 6.57 |
| Diversified Benchmark* | -0.37 | 3.08 | 9.14 | 8.84 | 6.57 | 5.69 | 7.89 |
| Outperformance (Net of Fees) | 0.16 | 0.35 | 0.35 | 1.00 | 0.19 | 0.36 | -1.32 |

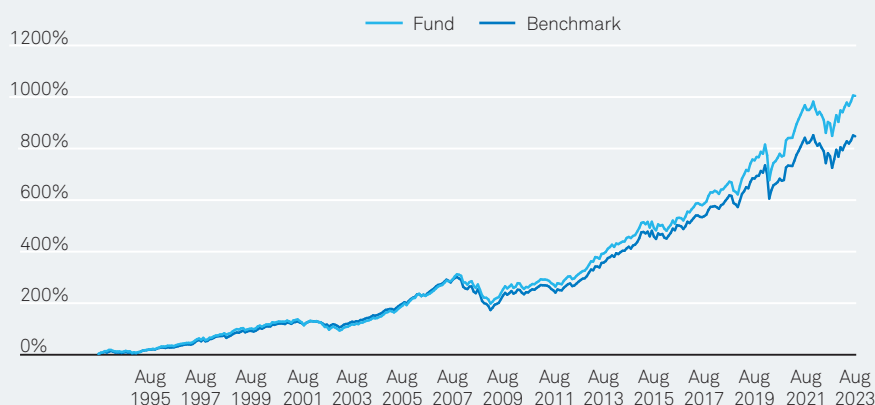
¹ Fund inception: 30/09/1992. ² Fund inception: 30/09/1992. ³ Fund inception: 30/04/1992.

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

* Please note that effective from 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 August 2023



Performance Summary

Market Overview – August 2023

Markets declined in August, as expectations that interest rates may remain higher-for-longer and China growth concerns weighed on investor sentiment. Global equities, as measured by the MSCI World Index (hedged), broadly declined 1.8% in Australian dollar terms over the month, but pared back some losses towards the end of August. The unhedged index finished the month up 1.6% as positive currency moves offset the decline in international share prices. Developed Market equities outperformed their Emerging Market counterparts. Fixed Income markets, as represented by

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

the Bloomberg Barclays Global Aggregate Index (hedged), continued to experience volatility and closed the month down 0.3%.

United States

In the US, the S&P 500 Index fell by 1.6% over the month (in local currency terms), with Utilities and Consumer Staples sectors among the worst performers. At the Jackson Hole economic symposium, US Federal Reserve (Fed) Chairman, Jay Powell, reiterated the need to hold monetary policy tight and noted he sees a “long way to go” on getting inflation down to target. Earlier in August, Fitch Ratings’ downgrade of the US credit rating to AA+ led to renewed focus on the country’s fiscal challenges. Meanwhile, reporting season for Q2 saw corporate earnings fall year-on-year for the third consecutive quarter, although the size of the decline was better than analyst expectations. On the data front, core inflation increased 4.7% year-on-year in July, while unemployment ticked down to 3.5% alongside robust job growth.

Europe

European equities, as represented through the Euro Stoxx 50 Index, decreased by 3.8% in August (in local currency terms), with several sectors that are most sensitive to the economic backdrop, notably Consumer Discretionary, recording steep declines. Following hawkish comments from several European Central Bank (ECB) Executive Board members, ECB President, Christine Lagarde, further reinforced that interest rates will stay high “as long as necessary” at the Jackson Hole economic symposium. Meeting minutes from the July ECB decision also showed a willingness by policymakers to further hike rates at the September meeting. However, investors are increasingly wary of the economic impact of multiple rate rises, with the Euro Area PMI falling below expectations to 47.0 – the lowest reading since late 2020 – while core inflation only edged down to 5.3% year-on-year.

In the UK, the FTSE 100 Index declined 2.5% in August (in local currency terms). Early in the month, the Bank of England (BoE) hiked rates 25 basis points to bring the base rate to 5.25%. The central bank continues to grapple with the starkest trade-off between inflation and growth in a generation, having sharply hiked rates by over 500 basis points in cumulative tightening thus far. Despite consensus forecasts of a modest decline, UK core inflation remained unchanged at 6.9% for July with British wages growing strongly.

Asia

Asian equity markets sold-off over the period. China’s CSI 300 Index underperformed and fell by 6.0% in August (in local currency terms), amid concerns around the property sector and sluggish underlying activity. Several large Chinese property developers faced turbulence over the month, with Evergrande filing for US bankruptcy protection while Country Garden warned it could soon default on its debts. In a fresh sign that authorities are ramping up monetary easing efforts to boost a sputtering economic recovery, China’s central bank unexpectedly cut key policy rates for the second time in three months. Chinese exports and imports shrank further in July, while youth unemployment also remains an issue.

Japanese equities, as represented by the Nikkei 225 Index, declined by 1.6% in August (in local currency terms), but remain a strong performer on a year-to-date basis, with markets up 26.5%. Japan’s GDP handily beat expectations to grow by 6.0% annualised over Q2, with net exports providing the largest quarterly contribution to GDP in three years. On the inflation front, the country’s core-core inflation index (which excludes prices of fresh food and energy) accelerated from the previous month and rose 4.3% year-on-year. Meanwhile, the Japanese yen has declined sharply since the Bank of Japan’s (BoJ) policy adjustment in July and sits near levels which spurred official intervention in currency markets late last year.

Australia

The S&P/ASX 300 Accumulation Index fell -0.8% in August, with Utilities and Consumer Staples among the worst performing sectors. For a second consecutive month, the Reserve Bank of Australia (RBA) left the official cash rate unchanged at 4.10% as the central bank paused to evaluate key economic developments. Australia’s monthly CPI fell unexpectedly to

4.9% year-on-year, which is now well below the December peak of 8.4%. Unemployment also rose to 3.7% in July, although remains below the 4.5% target the RBA has stated is necessary for inflation to return to target. The CoreLogic Home Value index, an indicator of Australian house prices, continued a six-month rally and recorded a 0.8% increase in August.

Fixed Income

Fixed income markets saw elevated volatility given an uncertain macroeconomic backdrop. Long-term government bond yields in the US jumped close to 15-year highs in August, exacerbated by the US Treasury’s hefty bond issuance and Fitch Ratings’ downgrade of the US credit rating, while yields on Japanese government bonds also moved sharply higher. Over the month, the US 10-year yield rose by 15 basis points to end August at 4.1%, while the Australian 10-year yield fell by 3 basis points to end the month at 4.0%. The rise in yields meant the Global Aggregate index (hedged) finished the month down 0.3%, while the fall in yields saw the Australian composite bond index outperform and gain 0.7% over August. Riskier parts of the fixed income markets, such as investment grade credit and emerging market debt indices, realised modest losses.

Commodities & FX

Commodity and energy prices were mixed over August. While Iron Ore rose 8.0% as Chinese authorities eased property regulations late in the month, Copper fell by 5.0% and Gold slid lower by 1.3%. Oil prices continued to recover and rose by 2.2% across the period, driven by several tailwinds including resilient global demand and OPEC+ production cuts. Within currencies, the US dollar appreciated against its developed market peers, strengthening by 1.8% in August. The Australian dollar depreciated by 3.5% against the US dollar.

Strategy Commentary – August 2023

The BlackRock Tactical Growth Fund recorded a negative return for August of -0.22% (after fees), compared to its diversified benchmark which fell by -0.37% over the month.

In terms of absolute performance, growth assets realised losses across the period, namely Global Equities, Australian Equities and Emerging Market Equities. The depreciation in the Australian dollar helped offset the fall in global share prices, with the unhedged allocation to Global Equities outperforming the hedged allocation. Global Infrastructure also detracted over the month, however Global Property contributed. The Fund’s more defensive asset classes saw mixed performance over August. Australian Fixed Income, Australian Inflation Linked Bonds and Australian Investment Grade Corporate Bonds modestly contributed, while US Inflation Linked Bonds detracted over the month. The defensive allocation to Gold contributed across the period.

On the active front, the Fund outperformed its diversified benchmark in July by 0.16% (after fees). The Fund’s Market-Neutral Style Premia strategy was the largest contributor as all five style factor buckets contributed, led by the Momentum factor. The Emerging Market Equities strategy added to active returns, driven by security selection in Taiwan and India, while Global Equities further contributed to alpha. The Fund invests in a Global Macro strategy that takes overweight and underweight positions across asset classes and regions. This sub-strategy detracted from active returns although was partially offset by tactical portfolio tilts which were additive over the month. Global fixed income detracted, due to the global systematic strategy which takes long/short positions across a broad array of fixed income markets, while Australian Equities also modestly underperformed its benchmark.

Outlook and Positioning

Global markets declined over the month. Investor sentiment soured on the back of concerns regarding China’s property sector, while rising government bond yields and weaker corporate earnings posed challenges for equity and fixed income markets alike. August saw a scheduled break in policy meetings for most global central banks apart from the Bank of England, however macroeconomic headwinds are expected to persist. A resilient US economy has seen an increasing likelihood of higher-for-

longer global rates, while oil prices continue to steadily march higher on concerns around reduced supply and low inventory levels, which will put renewed upwards pressure on headline inflation.

On the domestic front, the RBA held the official cash rate unchanged at 4.10% for a second consecutive month. The central bank continues to evaluate key economic developments, indicating that monetary policy is now restrictive and has shifted to the “calibration” phase, while highlighting the lack of productivity growth. However, a historically tight labour market means unemployment continues to remain well below the 4.5% level which the RBA believes is needed to bring the economy back into balance and bring wages growth to levels that are typically associated with at-target inflation of 2-3%.

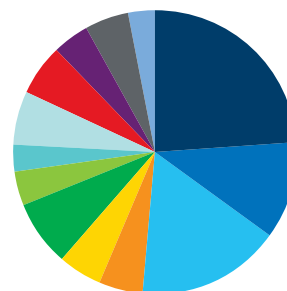
In terms of portfolio positioning and key return drivers, our strategic diversified benchmark exposures are our primary source of risk. Our portfolio’s allocations to Listed Infrastructure, Australian and US Inflation Linked Bonds and Gold have historically served as ballast and provide resiliency in 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 interest rates, 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.

Finally, we added a new strategy within the Australian Equities allocation at the end of August – the Australian High Conviction Fund. This strategy employs a fundamental approach to drive excess returns from bottom-up stock insights, rather than style or thematic exposure investing. We believe this addition to be a complement to the existing active systematic strategy we have within Australian Equities as well as the other portfolio strategies across asset classes more broadly.

Benchmark Allocation



| Asset Class | Benchmark Weight (%) | Market Performance | Contribution to Benchmark Return |
|---------------------------------|----------------------|--------------------|----------------------------------|
| Australian Shares | 24.00 | -0.76 | -0.18 |
| International Shares - unhedged | 11.00 | 1.60 | 0.18 |
| International Shares - hedged | 16.50 | -1.85 | -0.31 |
| International Infrastructure | 5.00 | -1.65 | -0.08 |
| International Property | 5.00 | 0.56 | 0.03 |
| Emerging Market Equity | 7.50 | -2.36 | -0.18 |
| Australian Bonds | 4.00 | 0.74 | 0.03 |
| Australian Corporate Bonds | 3.00 | 0.99 | 0.03 |
| Aust. Inflation-Linked Bonds | 6.00 | 0.70 | 0.04 |
| US Inflation-Linked Bonds | 6.00 | -1.09 | -0.07 |
| Global High Yield | 4.00 | 0.22 | 0.01 |
| Gold | 5.00 | 2.31 | 0.12 |
| Cash | 3.00 | 0.37 | 0.01 |

Total Benchmark Return: -0.37

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 | 421 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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