

# Product Review

## BlackRock Tactical Growth Fund

### About this Review

ASSET CLASS REVIEWED	MULTI-ASSET
SECTOR REVIEWED	61-80% GROWTH ASSETS
SUB SECTOR REVIEWED	DIVERSIFIED
TOTAL FUNDS RATED	18

### About this Fund

ASIC RG240 CLASSIFIED	YES
FUND REVIEWED	BLACKROCK TACTICAL GROWTH FUND
APIR CODE	PWA0822AU
PDS OBJECTIVE	THE FUND AIMS TO OUTPERFORM ITS BENCHMARK INDICES OVER A FIVE YEAR ROLLING PERIOD, BEFORE FEES.
INTERNAL OBJECTIVE	2-3% P.A. ABOVE THE STRATEGIC BENCHMARK OVER A ROLLING FIVE-YEAR PERIOD, BEFORE FEES.
STATED RISK OBJECTIVE	TARGET TRACKING ERROR OF 2-4% P.A. OVER FIVE-YEAR PERIODS.
DISTRIBUTION FREQUENCY	SEMI-ANNUAL
FUND SIZE	\$417.4M (FEBRUARY 2023)
FUND INCEPTION	30-09-1992
ANNUAL FEES AND COSTS (PDS)	1.4% P.A.
RESPONSIBLE ENTITY	BLACKROCK INVESTMENT MANAGEMENT (AUSTRALIA) LIMITED

### About the Fund Manager

FUND MANAGER	BLACKROCK INVESTMENT MANAGEMENT (AUSTRALIA) LIMITED
OWNERSHIP	100% OWNED BY BLACKROCK INC (NYSE: BLK)
ASSETS MANAGED IN THIS SECTOR	\$5.9BN (DECEMBER 2022)
YEARS MANAGING THIS ASSET CLASS	30

### Investment Team

PORTFOLIO MANAGER	MICHAEL MCCORRY, KARSTEN KUMPF, RON MONTGOMERY
INVESTMENT TEAM SIZE	15
INVESTMENT TEAM TURNOVER	LOW TO MODERATE
STRUCTURE / LOCATION	GENERALIST/SYDNEY

### Investment process

BENCHMARK	SAA COMPOSITE INDICES
ASSET ALLOCATION	SAA, TAA
SECTOR EXPOSURES	ACTIVE
STRATEGIC GROWTH / DEFENSIVE SPLIT	69% / 31%
USE OF ALTERNATIVES	YES
CURRENCY EXPOSURE	STRATEGICALLY MANAGED

### Fund rating history

APRIL 2023	HIGHLY RECOMMENDED
APRIL 2022	HIGHLY RECOMMENDED
MARCH 2021	HIGHLY RECOMMENDED

### What this Rating means

The 'Highly Recommended' rating indicates that Lonsec has very strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered a preferred entry point to this asset class or strategy.

### Strengths

- Highly experienced portfolio management team with significant expertise in multi-asset investing and long tenure at the Manager.
- Highly integrated access to the well-resourced broader BlackRock investment team, knowledge and resources.
- Separate risk function and industry leading risk management systems.

### Weaknesses

- Moderately high key person risk on the three senior portfolio managers.
- Underlying building blocks are limited to internal BlackRock strategies.

### Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK	●		
CAPITAL VOLATILITY			●
FOREIGN CURRENCY EXPOSURE		●	
LEVERAGE RISK			●
REDEMPTION RISK		●	
SECURITY CONCENTRATION RISK	●		
SECURITY LIQUIDITY RISK		●	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

### BIometrics

#### Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE					●		

A Standard Risk Measure score of 5 equates to a Risk Label of 'Medium to High' and an estimated number of negative annual returns over any 20 year period of 3 to less than 4. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

### Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY			●
ESG		●	

# BlackRock Tactical Growth Fund

## Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE			●
FEES VS. ASSET CLASS		●	
FEES VS. SUB-SECTOR		●	

Fee BIoMetrics are a function of expected total fee as a percentage of expected total return.

## What is this Fund?

- The BlackRock Tactical Growth Fund ('the Fund') is a multi-asset strategy that aims to outperform its strategic benchmark over a five-year rolling period, before fees, and its internal performance objective is to achieve 2-3% p.a. above the strategic benchmark over a rolling five-year period, before fees. Tracking Error is expected to range between 2-4% p.a. over the same time period as a target.
- The Fund is managed relative to a strategic benchmark comprised of 69% growth assets and 31% defensive assets and invests across a range of asset classes including Australian, international and emerging market equities, international listed infrastructure, global listed real estate, Australian and international fixed interest including global high yield credit, gold and cash. The Fund has the flexibility to deviate meaningfully from its Strategic Asset Allocation ('SAA') to help manage total portfolio risk. For the most part the Fund will resemble a 69%/31% growth/defensive portfolio, but in times of market stress, asset allocation can adjust significantly, for example to a 50%/50% growth/defensive portfolio, to protect capital. The Fund is managed by BlackRock's Multi-Asset Strategies and Solutions ('MASS') team located in Australia.
- The Fund seeks to add value above its strategic benchmark by investing in a range of alpha strategies, such as equity long-short, fixed income long-short and style premia, whilst diversifying the risk contributions of these alpha sources as much as possible. Tactical Asset Allocation decisions ('TAA') are implemented via an overlay run by BlackRock's Global Tactical Asset Allocation ('GTAA') team. There is also flexibility to implement both relative value and directional trades across asset classes using derivatives, managed by the MASS Australia team.
- The Fund invests the majority of its assets in pooled fund investments managed by BlackRock Investment Management (Australia) Limited or other members of BlackRock Group. The Fund also invests in direct physical investments as well as exchange traded and over the counter derivatives. The Fund, as well as a number of underlying managers, may engage in short selling.
- The Fund does not enter into borrowing arrangements for investment purposes. The Fund will, however, gain leveraged exposure through its use of derivatives, potential short selling and its exposure to underlying funds. There is no explicit maximum gross leverage the Fund may be exposed to; however, the Manager expects it to range between 1 to 5 times NAV.
- BlackRock believes an optimal investment outcome can be best achieved through Total Performance Management and the three dimensions of investment performance; risk, return and cost. Within the return

dimension, BlackRock believes markets are not perfectly efficient and as a result securities become mispriced, creating opportunities to add value. BlackRock believes its technology-based, disciplined process provides a comparative advantage over less quantitatively rigorous, labour intensive and fundamental styles. The Manager believes this is achieved via rapid analysis of information, the removal of emotion and sentiment from the implementation decision and the efficient modelling of transaction costs.

- The Fund's PDS dated 31 March 2023 disclosed Annual Fees and Costs ('AFC') totalling 1.40% p.a. This fee comprises (1) Management Fees and Costs of 0.92% p.a., (2) Performance Fees of 0.00% p.a., and (3) Net Transaction Costs of 0.48%. In-line with RG97, some fees and costs have been estimated by the issuer on a reasonable basis. Actual fees and costs may vary to these estimates. The Fund does not charge a performance fee.
- The Fund charges buy/sell spreads set at 0.12%/0.12%. These spreads can be subject to change, most notably during periods of market volatility, and can be sourced from the Manager's website.

## Using this Fund

**This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.**

- Lonsec notes the Manager has produced a Target Market Determination ('TMD') which forms part of the Responsible Entity's Design and Distribution Obligations for the Fund. Lonsec has collected the TMD that has been provided by the Manager and notes this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- The Fund provides exposure to a range of asset classes consistent with a traditional diversified growth product, however it uses underlying strategies and techniques which are relatively more complex than traditional products.
- The Fund is a growth-oriented portfolio best suited to long-term investors who can accept some investment risk over the long run. A small income exposure may slightly reduce the shorter-term fluctuations of the Fund. The Fund has a high exposure to shares to provide long-term investment growth.

## Suggested Lonsec risk profile suitability

SECURE	DEFENSIVE	CONSERVATIVE	BALANCED	GROWTH	HIGH GROWTH
				●	

For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

## Changes Since Previous Lonsec Review

- The following staff have been added to the investment team:
  - Vera Wang joined the investment team in March 2022 as a Portfolio Manager.
  - Tobias Morrison joined the investment team in March 2022 as a Portfolio Manager.

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- There have been no material changes to the philosophy or investment process supporting the Fund.

## Lonsec Opinion of this Fund

### People and resources

- BlackRock is a large, well-resourced firm with over US\$8.6tn of assets managed across asset classes. BlackRock has a long track record in managing multi asset portfolios since 1992, with over US\$685bn assets in multi-asset products globally, of which \$64bn are sourced from the Australian business as of 31 December 2022. Lonsec views the Manager's investment management business as sustainable.
- Michael McCorry is CIO and the Head of Multi-Asset Strategies and Solutions ('MASS') Australia. McCorry is supported by Head of Portfolio Management, Australia Karsten Kumpf and Portfolio Manager Ron Montgomery. Lonsec considers McCorry, Kumpf and Montgomery to be seasoned multi-asset investors with a considerable track record at BlackRock.
- Given their key roles of McCorry, Kumpf and Montgomery in the management of the Fund and their intimate knowledge of BlackRock's internal capabilities, Lonsec considers there to be moderately high key person risk on all three.
- The MASS Australia team comprises a further seven Portfolio Managers with additional support from Head of Product Strategy Katie Petering, Head of Portfolio Solutions David Griffith, and Model Portfolios Lead Strategist Uwe Helmes. The team is based across Sydney and Hong Kong with Portfolio managers Ron Montgomery, Tatiana Bernard, Sasha Akoulov, Vera Wang and Tobias Morrison based in Sydney, and portfolio managers Kate Cheng and Victor Shi based in Hong Kong. The investment team size is in line with the Lonsec peer median and is regarded as adequately resourced given research can be shared across the numerous strategies under their management.
- Lonsec believes the strong academic and quantitative background of the local MASS team members to be highly complementary to the Manager's investment process. The senior membership of the team has been stable over a number of years and co-tenure is higher than most of Lonsec rated peers.
- BlackRock benefits from the depth of resources available globally and the ability to extract the best ideas and views from those resources. The local MASS team leverages off their broader global MASS colleagues, in addition to specialist sector teams. Lonsec believes the overall level of resourcing available to the team to be high and is suitably impressed with the high degree of calibre throughout underlying asset class teams. Lonsec considers the deep pool of resources to be a major strength of the Fund and is pleased to observe a reasonably high level of interaction between the various teams at BlackRock.
- Lonsec considers alignment of interest in the Fund to be adequate given senior members of the investment team are co-invested in the Fund at their own discretion. Variable remuneration is linked to the performance of the Fund. Additionally, BlackRock has a formal long-term discretionary incentive plan

in place for investment staff, bonuses are dependent on company and business unit performance, as well as the assessments of an individual's contribution to meeting objectives.

### Asset allocation

- Lonsec considers the Fund's SAA process to be robust and consistently applied. The SAA process incorporates BlackRock's global capital market assumptions via a robust optimisation framework with additional sensitivity analysis and stress testing. The SAA is formed with a 5-10 year horizon and reviewed periodically, typically annually, to incorporate changes to capital market assumptions. Positively, the team is able to access the expertise of their global colleagues for inputs into this process.
- TAA decisions are implemented via the GTAA overlay capability managed out of New York, San Francisco and Hong Kong. This is a custom-designed overlay for the Fund which seeks to generate approximately 0.5%-1% p.a. of alpha at the portfolio level. Lonsec believes the GTAA team to have credible and significant experience in managing tactical strategies with the short to medium term positioning expected to complement the longer-term positioning of the SAA.
- The MASS Australia team has the flexibility to significantly reduce the Fund's growth exposure to 50% in extreme circumstances and implement relative value or directional trades to manage total portfolio risk. Downside risk mitigation will be implemented when one or more of the internal market stress measures, such as market volatility and specific portfolio risk metrics, are triggered. Lonsec notes a material reduction in the Fund's growth exposure is expected to be implemented infrequently, one to two times every 10 years, the implementation of tactical trades has been more prevalent in recent times with the aim of shaping total portfolio active risk. Lonsec has strong conviction in the idea generation, implementation and track record of the local MASS team's tactical trades.

### Research approach

- Given the Fund's relatively static asset allocation at the portfolio level, a significant level of alpha generation is predicated on the Manager's ability to select the best internal capabilities within each asset class. The Manager expects security selection to form 60% of the Fund's expected alpha with the remaining coming from Tactical Asset Allocation: 29%, and style premia at 10%. In addition to the alpha targeted, Lonsec also views positively the Manager's ability to adjust the TAA in light of changing market conditions as represented by the SAA benchmark.
- Lonsec considers the Manager's research process to be logical and consistent with the MASS philosophy. Due diligence is conducted on existing and prospective underlying strategies at least twice a year. The MASS Australia team seeks to use underlying strategies that meet three key criteria: i) produce high quality risk-adjusted active returns as a stand-alone strategy, ii) benchmark exposures are complementary to the SAA, and iii) active returns are complementary to each other. Both qualitative and quantitative analysis are undertaken in order

ANALYST: IAN CANNON | APPROVED BY: DARRELL CLARK

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for the team to form views of expected risk, return, correlations and expected trading costs. Compared to peers that allocate to external funds, Lonsec believes the opportunity to be somewhat limited though noting the depth and breadth of capabilities across BlackRock is fairly significant.

## ESG Integration

- Lonsec's ESG integration assessment considers how rigorous, robust and structured the ESG process for the Fund is as well as how well it integrates into the overall investment process and the Manager's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings of the Fund's portfolio or the Manager's adherence to any form of impact, green / sustainable or ethical standards.
- At the corporate level Lonsec views the Manager's overall ESG policy framework and disclosure as ahead of peers. The Manager has an articulated commitment to the integration of ESG within their investment process with clear public positioning and evidence of a strong policy framework. The ESG policy together with stewardship guidelines are freely available on the firm's website. The proxy voting policy and reporting on voting outcomes is stronger than peers with particular credit paid to the disclosure of voting rationale for controversial votes. The level of disclosure with respect to the Manager's engagement policies is high, particularly the firm's stewardship policies, however reporting on engagement outcomes lacks depth compared to industry-leading peers.
- The Manager has indicated that their Responsible Investment style is 'ESG Integration' and as such that they take Environmental, Social and Governance factors into consideration when assessing investment opportunities. With a primary ESG style of 'Stewardship' Managers will usually focus their ESG strategy on Engagement and Voting as the key tool in managing their ESG risks. While stewardship approaches are common across most Managers, they can form the key ESG strategy employed by some Managers. Due to the qualitative nature of this style Lonsec highlights the need for Managers to provide clear and detailed reporting on both engagement and voting activities and recommends investors review the fund stewardship reporting where available.
- Lonsec's review of ESG integration for Multi Asset Funds such as this, reviews only the ESG components of the selection of underlying strategies or managers. It does not review the ESG integration at the level of each of the underlying funds or strategies.
- Within the Manager's internal approach ESG data management is strong and evidence of an ESG research effort is clear.
- Engagement activity is evident with overall structures and tracking broadly aligned with peers.
- ESG does not form a component of the Managers broader compliance framework and overall transparency provided to investors is lagging. Voting on the Fund is decided on a company wide basis potentially limiting the Fund's ability to vote in alignment with its own analysts views or investment/sustainability priorities.

## Portfolio construction

- Once the SAA has been determined, and the preferred strategy identified, portfolio construction is conducted via mean-variance optimisation to determine the optimal portfolio. This takes into account a range of factors including SAA, expected tracking error, transaction costs, inflation hedging, and credit and duration exposures. Lonsec considers the systematic investment process leads to a highly structured, consistent approach to portfolio construction.
- Lonsec recognises the innovative portfolio construction techniques used by BlackRock. Specific to this Fund, the Manager uses derivative and/or index exposures for asset class exposures when the risk/return relationship of particular sectors are not favourable.
- A relative strength of the Fund is its approach to downside risk management primarily through diversification at the SAA level, and its risk mitigation toolkit which has the potential to materially alter the shape of the portfolio when perceived risks exist via the use of derivatives structures. Explicit protection including option strategies may be used to protect the portfolio from fat tail events. Lonsec believes the Manager's strong emphasis on the management of specific risks and resources available to it are noteworthy.

## Risk management

- In constructing the portfolio, BlackRock has appropriate ranges in place around the strategic benchmark and monitors positions daily. BlackRock has a range of in-house risk models for assessing risk at the underlying fund level. Factors assessed include variability in markets, or beta, size, leverage, interest rate sensitivity, and active position and industry sizes. The performance attribution system is also a useful tool in risk management. Lonsec views the proprietary tools used as relatively above peers.
- BlackRock's Risk & Quantitative Analytics ('RQA') team uses proprietary analytics to report on both absolute and relative portfolio risks to the investment team on a daily basis. The Fund also draws on BlackRock's compliance department to run a daily test of the underlying capabilities adherence to investment guidelines. Lonsec views this compliance as adequate.
- Given the Fund allocates to a number of relatively unconstrained underlying strategies that may use leverage, Lonsec believes the Fund would benefit from a limit on the maximum level of gross leverage at a portfolio level. Lonsec notes, there is comfort in the involvement of the RQA team in monitoring overall leverage level.

## Fees

- The Fund's fee comprises a management fee of 0.92% and net transaction costs of 0.48%. Lonsec considers the total fee load for the Fund (AFC of 1.40% p.a.) as moderately expensive relative to similar strategies within the peer group. The high net transaction costs suggest the Fund's buy/sell spread may be insufficient.



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## Product

- The Fund is a multi-asset diversified strategy that invests across a range of relatively liquid securities within growth and defensive asset classes. Lonsec does not consider it to be operationally challenging to implement or at risk of potential liquidity mismatches between the Fund and its underlying managers. Additionally, the Manager uses high quality 'tier one' service providers including its counterparties.
- The Fund is a registered managed investment scheme ('MIS') for which BlackRock Investment Management (Australia) ('BIMAL') is the Responsible Entity ('RE'). The RE is responsible for operating and managing the MIS, holds an ASFL and as such is required to comply with its AFSL and RE obligations as outlined under the Corporations Act. While the use of external RE's is Lonsec's preferred operating model, Lonsec notes the RE has built experience in operating and managing a number of schemes over an extended period of time and is expected to have a structure governance framework in place.
- With FUM of \$417m as of 28 February 2023, the Fund is relatively moderate in size. Given the long track record of the strategy, the track-record of the BlackRock team, and the commitment of the Manager, Lonsec views the wind-up risk of the Fund to be low.

## Performance

- The PDS objective of the Fund is to outperform the SAA benchmark over rolling five-year periods gross of fees. The internal objective is to outperform this benchmark by 2-3% p.a.
- To 28 February 2023, the Fund achieved a total five-year return of 6.4% p.a. net of fees, or 7.3% p.a. gross of fees, outperforming the strategic benchmark by 1.4% p.a. gross of fees and achieving the PDS objective, but falling short of the 2-3% excess return internal objective.
- Compared to the Lonsec peer group median, the Fund has achieved better total returns, net of fees, over three and five years, achieving 5.1% p.a. and 6.4% p.a. respectively. The Fund has achieved these returns with very similar volatility to the median over these same time frames, indicating better risk adjusted returns, evident by higher Sharpe ratios.
- The Fund's worst drawdown over three and five years is similar to the peer median.
- As at the time of review, most underlying asset class exposures had contributed to Fund's performance outcomes over the past 12-months, particularly the Fund's exposure to the GTAA overlay and underlying global fixed income exposures. Detracting from returns was the Fund's exposure to international equities.

## Overall

- Lonsec has maintained the Fund's 'Highly Recommended' rating at its latest review. The favourable rating is underpinned by Lonsec's high regard for the local portfolio management team and their collective experience in managing multi-asset portfolios. The portfolio managers also draw on support from the broader BlackRock business, including its capital market assumptions, quantitative research and industry leading risk management systems. The Fund is able to access a range of alpha sources from underlying BlackRock strategies.

## People and Resources

### Corporate overview

BlackRock is one of the world's largest asset managers. As of 31 December 2022, the firm employed more than 19,700 professionals and maintains offices in 36 countries. BlackRock Inc. (NYSE: BLK) has no single majority stockholder and has a majority of external directors. The Fund is managed by BlackRock's Multi-Asset Strategies and Solutions team located in Australia. BlackRock managed a total of US\$8.6tn of assets as of 31 December 2022, of which approximately US\$685bn was in the multi-asset sector. The Multi-Asset Strategies and Solutions team in Australia managed \$64bn of assets as of 31 December 2022, of which \$5.9bn in the multi-asset sector.

### Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
DR MICHAEL MCCORRY	CHIEF INVESTMENT OFFICER	31 / 25
DR KARSTEN KUMPF	HEAD OF PORTFOLIO MANAGEMENT	16 / 16
DAVID GRIFFITH	HEAD OF PORTFOLIO SOLUTIONS	25 / 16
KATIE PETERING	HEAD OF PRODUCT STRATEGY	26 / 5
UWE HELMES	PRODUCT STRATEGIST	12 / 5
RONALD MONTGOMERY*	PORTFOLIO MANAGER	21 / 16
SASHA AKOULOV	PORTFOLIO MANAGER	14 / 14
TATIANA BERNARD	PORTFOLIO MANAGER	9 / 5
VICTOR SHI ^	PORTFOLIO MANAGER	8 / 8
KATE CHENG ^	PORTFOLIO MANAGER	6 / 6
VERA WANG	PORTFOLIO MANAGER	5 / <1
TOBIAS MORRISON	PORTFOLIO MANAGER	4 / <1

\*Lead Portfolio Manager of the Fund^ Based in Hong Kong

The BlackRock local Multi-Asset Strategies and Solutions ('MASS') team is responsible for the management of the Fund. The team currently comprises eight investment professionals with an average of 18 years' investment experience. The MASS team sits within the wider BlackRock Australian Investment team which is split into three capabilities; Equities, Multi Asset Strategies and Fixed Income, all reporting to CIO, Michael McCorry. MASS also has functional reporting lines to the global Multi-Asset Strategies and Solutions Group led by Richard Kushel.

As CIO, McCorry has ultimate investment responsibility for the Fund as well as responsibility for its asset

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allocation, including its SAA and the active risk budget. McCorry joined BGI in 1997. Prior to assuming the sole CIO role in October 2012, he held a number of senior roles across a range of asset classes.

McCorry is supported by Dr Karsten Kumpf, Head of Portfolio Management, Ron Montgomery Lead Portfolio Manager of the Fund, David Griffith Head of Portfolio Solutions, and Katie Petering Head of Product Strategy. Prior to joining BlackRock ('BGI') in 2006, Kumpf held senior positions in a number of technology and telecommunication businesses. Montgomery joined BlackRock in its predecessor form, Merrill Lynch investment Managers in 2005, and prior to this was at Deutsche Bank AG, Sydney, managing interest rate and structured credit trading.

The Multi-Asset Strategies and Solutions Committee meets weekly to monitor performance and make allocation decisions for the Fund. The Fund's SAA/TAA processes also leverage off the research capabilities of the group globally. Below is a list of committees and forums the Multi-Asset Strategies and Solutions team have the ability to leverage off:

- Daily Portfolio Managers meetings;
- Weekly Equities and Fixed Income meetings, both local and global;
- Weekly MASS Market Focus Meeting;
- Monthly GTAA and Diversified Strategies meeting;
- Monthly Asset Allocation Meeting; and
- Quarterly BlackRock Investment Institute, a forum established to capture senior PM views globally.

The MASS team also leverages off other parts of the BlackRock business, including the Systematic Active Equity Team, ETF & Index Investments Team, Model Driven Fixed Income Team and the Quantitative & Risk Analytics Team.

## Alignment of interest

The remuneration structure for BlackRock investment staff is based on a Total Compensation Philosophy, which aims to pay total remuneration packages in the top quartile for fund managers. These packages include a fixed compensation reward, profit share and a variable incentive scheme. The variable compensation element of any package is driven by corporate and individual performance.

## Asset consultant

The Manager does not use the services of an external asset consultant.

## Asset Allocation

### Strategic asset allocation

BlackRock considers SAA benchmarks over a long term investment horizon (5-10 years) and reviews allocations periodically, typically annually, to incorporate updates to capital market expectations. For each asset class, BlackRock has a defined framework for estimating expected returns:

- Asset class returns are de-composed into their expected income and capital gains; and
- BlackRock then considers the key drivers of each of these return components over an investment horizon of 5-10 years. For example, P/E re-pricing, inflation, and real earnings growth drive capital

gains expectations for equities, while buybacks and dividends explain the expected income from equities.

Historical returns are used to estimate the expected risk and correlations of assets, with more recent periods given more weight.

BlackRock uses a mean-variance optimisation model to incorporate the internally derived asset class forecasts for returns, risks and correlations to build an efficient frontier.

Asset allocation table showing benchmark weights as of 31 March 2023:

### Asset allocation

ASSET CLASS	SAA BENCHMARK	MIN	MAX	CURRENT ALLOCATION
AUSTRALIAN EQUITIES	24%	-	-	24%
INTERNATIONAL EQUITIES (UNHEDGED)	14%	-	-	16.5%
INTERNATIONAL EQUITIES (HEDGED)	10%	-	-	11%
EMERGING MARKET EQUITIES	7.5%	-	-	7.5%
GLOBAL LISTED INFRASTRUCTURE	5%	-	-	5%
INTERNATIONAL PROPERTY	5%	-	-	5%
AUSTRALIAN BONDS	5%	-	-	4%
AUSTRALIAN INFLATION LINKED BONDS	6%	-	-	6%
US INFLATION LINKED BONDS	6%	-	-	6%
GLOBAL HIGH YIELD	5%	-	-	4%
EMERGING MARKET DEBT	0%	-	-	0%
AUSTRALIAN CORPORATE BONDS	3%	-	-	3%
GOLD	6%	-	-	5%
CASH	3.5%	-	-	3%
TOTAL	100%	-	-	100%

### Tactical/Dynamic asset allocation

The Fund gains its shorter-term TAA exposure via the Global Tactical Asset Allocation ('GTAA') overlay capability managed out of New York and San Francisco. It is a fundamentally based strategy accessing a broad set of asset classes and aims to provide uncorrelated active returns. Insights are expressed across asset classes and countries and include both outright and relative value positions. The GTAA team manages US\$42.6bn in client assets.

The GTAA overlay is customised for the Fund in terms of investment universe, risk targets, and constraints and targets 0.75% p.a. in alpha at the portfolio level.

The Fund has a de-risking mechanism allowing the portfolio manager to significantly tilt the Fund's growth exposure lower, to a 50%/50% growth/defensive portfolio, and/or implement relative value or directional tactical trades in risk-off environments. The team monitors various internal measures of market stress or complacency as inputs into the process, including the Global Managed Volatility Stress Signal Dashboard, custom Multi-Asset Concentration index, specific portfolio risk-factor and scenario analysis, as well as the global MASS weekly discussions.

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## Research Approach

All allocations are made to internally managed BlackRock capabilities. Nonetheless, given the range and breadth of available options, manager research forms an integral part of the process.

At a high level, the Manager looks for strategies which:

- Produce favourable risk-adjusted returns as a stand-alone strategy;
- Have benchmark exposures which are complementary to the SAA; and
- Produce active returns uncorrelated and complementary to existing strategies in the Fund.

Due diligence involves both qualitative and quantitative analysis. The qualitative assessment forms a view of the investment process, decision oversight, and the investment team, as well as investment terms, liquidity and collateral management. The quantitative assessment involves analysing a strategy's expected risk and return profile. Risk is decomposed to a factor level and considered in the context of the broader portfolio. This involves stress testing the portfolio under a range of assumptions such as sensitivities to market betas and macroeconomic factors.

## Portfolio Construction

### Overview

BlackRock aims to diversify the sources of active risk across the 'best alpha generators' in the firm. Each alpha source is allocated a proportion of the Fund's total risk budget. In BlackRock's view, this 'risk budgeting' approach has led to a greater diversification of risk which has allowed each unit of risk to be run more aggressively.

### Underlying manager allocation

#### Australian equities

- BlackRock Equitised Long Short Fund
- iShares Wholesale Australian Equity Index Fund
- BlackRock Australian Alpha Tilts Fund

#### Global emerging equities

- BlackRock Asian Dragon Fund
- BGF Emerging Markets Fund

#### Australian fixed interest

- BlackRock Australian Bond Fund
- iShares Australian Inflation Linked Bond Fund

#### International fixed interest

- BlackRock Fixed Income Global Alpha Fund
- BlackRock Fixed Income Global Opportunities Fund
- BlackRock Global High Yield ESG and Credit Screened Fund
- iShares TIPS Bond Fund

#### Global property

- BGF World Real Estate Securities Fund

#### Global infrastructure

- BlackRock Global Listed Infrastructure Fund

#### Multi-asset

- Global Tactical Asset Allocation (GTAA) overlay

### Style premia

- BlackRock Style Advantage Fund

### Gold

- iShares Physical Gold ETC (and Gold Futures)

### Cash

- BlackRock Money Market Fund
- Derivatives

## Risk Management

### Risk limits

The Fund is managed with a strong emphasis on managing downside risk within portfolio construction. At a broad level, the 'risk budgeting' approach adopted by BlackRock is used as a means of controlling risk. The Fund's ex-ante active risk is expected to range between 2-4% p.a. The following asset classes are expected to be the major contributors to active risk: tactical asset allocation (34%), equity alpha (33%), fixed income alpha (23%), style premia (9%). These measures are monitored by BlackRock's Risk & Quantitative Analytics team on a regular basis.

### Risk monitoring

BlackRock's RQA team works closely with portfolio managers to provide separate risk oversight. This involves identification, monitoring and risk minimisation throughout the investment process. Proprietary risk models are used to monitor portfolio exposures, the marginal contribution of active stock positions, tracking error, style drift and liquidity. The RQA team interacts closely with the MASS team and provides additional support across performance reporting and attribution and strategy commentary. The Fund also draws on BlackRock's compliance department to run a daily test of the underlying capabilities adherence to investment guidelines.

### Implementation

The Fund has a re-balancing tolerance guideline with any variance approaching 0.5% for all asset classes. Wherever possible, daily cash flows are used to re-balance the physical portfolio. Where further rebalancing is required, futures are usually implemented due to lower cost. On occasion, a physical rebalance may also be undertaken.

### Currency management

Currency hedging for the Fund is determined on an annual basis, as part of the SAA review, using a whole of portfolio approach. At the asset class level, the Manager fully hedges the Fixed Income exposure/s but retains some meaningful currency exposure via the International Equity allocations and the Gold allocation, which the Manager believes is beneficial to portfolio diversification.

## Risks

**An investment in the Fund carries a number of standard investment risks associated with investment markets. These include economic, market, political, legal, tax and regulatory risks. Investors should read the PDS before making a decision to invest or not invest. Lonsec considers the major risks to be:**

ANALYST: IAN CANNON | APPROVED BY: DARRELL CLARK

## BlackRock Tactical Growth Fund

ISSUE DATE 20-04-2023

### Market risk

Investment returns are influenced by the performance of the market as a whole. This means that your investments can be affected by things like changes in interest rates, investor sentiment and global events, depending on which markets or asset classes you invest in and the timeframe you are considering.

### Security and investment-specific risk

Within each asset class and each fund, individual securities like mortgages, shares, fixed interest securities or hybrid securities can be affected by risks that are specific to that investment or that security. For example, the value of a company's shares can be influenced by changes in company management, its business environment or profitability. These risks can also impact on the company's ability to repay its debt.

### Currency risk

Investments in global markets or securities which are denominated in foreign currencies give rise to foreign currency exposure. This means that the value of these investments will vary depending on changes in the exchange rate.

### Derivative risk

The Underlying funds which the Fund invests in may use derivative contracts to pursue their respective investment strategies or for the purposes of portfolio hedging. Derivatives may also be employed at the headline fund level to manage exposures. Derivative contracts are subject to certain risks, including market risk, counterparty risk (risk that a counterparty fails to perform their contractual obligations), and operations risk (risk of failure of internal controls).

### Leverage risk

Underlying funds may use derivatives or borrow to create gearing / leverage, which at times may be substantial. The amount of gearing depends on a manager's investment strategy. The use of leverage may magnify the Fund's losses and gains. The Fund may borrow for short-term operational purposes only, however, this has never been used. The Fund has no explicit maximum level of gross leverage that it may be exposed to, however, the Manager anticipates it to range from between 1x and 5x NAV.

### Liquidity risk

Investors may be exposed to securities and derivatives which are thinly traded or illiquid in nature. That said, liquidity is factored into the investment process.

### Regulatory risk

A number of the underlying funds are registered and regulated in overseas jurisdictions and are therefore subject to the risk that laws may change. There is also a risk that taxation or other applicable laws may change in Australia that may affect the operation of the Fund.

### Short selling

Underlying funds may create short positions by borrowing a security to sell, using futures contracts, or other derivative instruments. A short sale creates the risk of an unlimited loss as the security price could theoretically increase without limit.

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# BlackRock Tactical Growth Fund

## Quantitative Performance Analysis - annualised after-fee % returns (at 28-2-2023)

### Performance metrics

	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	0.03	-0.57	5.13	4.74	6.40	4.92	7.53	6.84
STANDARD DEVIATION (% PA)	12.15	11.40	11.52	11.52	10.20	10.07	8.49	8.43
EXCESS RETURN (% PA)	0.07	0.10	1.01	0.47	0.59	-0.98	0.14	-0.98
OUTPERFORMANCE RATIO (% PA)	50.00	50.00	55.56	55.56	51.67	45.00	50.00	45.00
WORST DRAWDOWN (%)	-9.35	-9.08	-12.86	-12.75	-15.24	-15.60	-15.24	-15.19
TIME TO RECOVERY (MTHS)	NR	NR	NR	8	8	10	8	8
SHARPE RATIO	-0.14	-0.19	0.39	0.36	0.52	0.40	0.69	0.63
INFORMATION RATIO	0.03	0.04	0.39	0.18	0.22	-0.43	0.06	-0.43
TRACKING ERROR (% PA)	2.34	2.45	2.58	2.60	2.61	2.55	2.34	2.28

PRODUCT: BLACKROCK TACTICAL GROWTH FUND

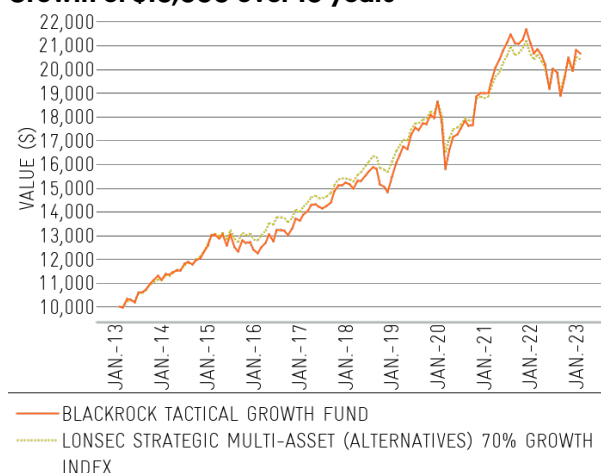
LONSEC PEER GROUP: MULTI-ASSET - 61-80% GROWTH ASSETS - DIVERSIFIED

PRODUCT BENCHMARK: LONSEC STRATEGIC MULTI-ASSET (ALTERNATIVES) 70% GROWTH INDEX

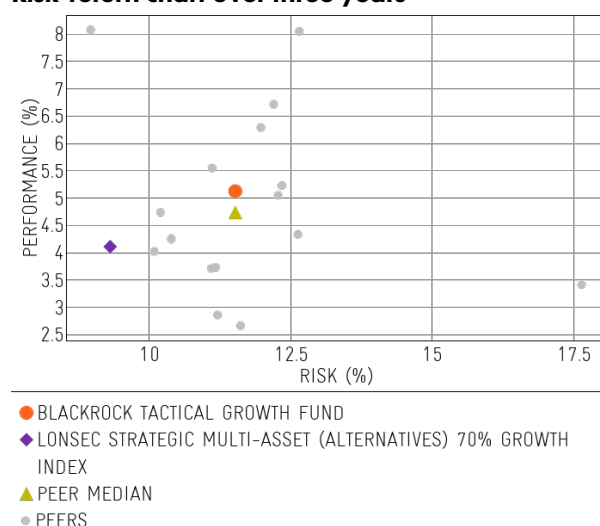
CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD

TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

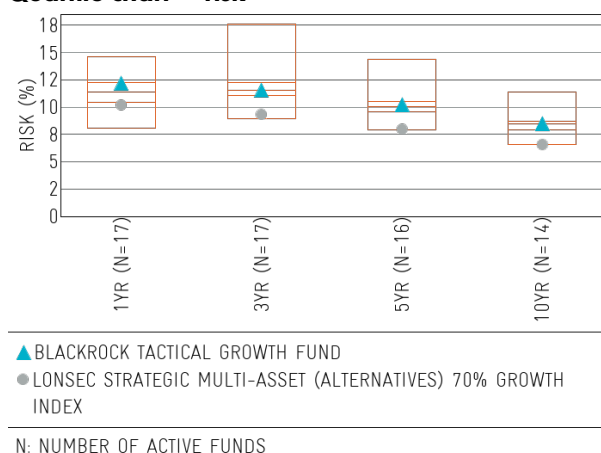
### Growth of \$10,000 over 10 years



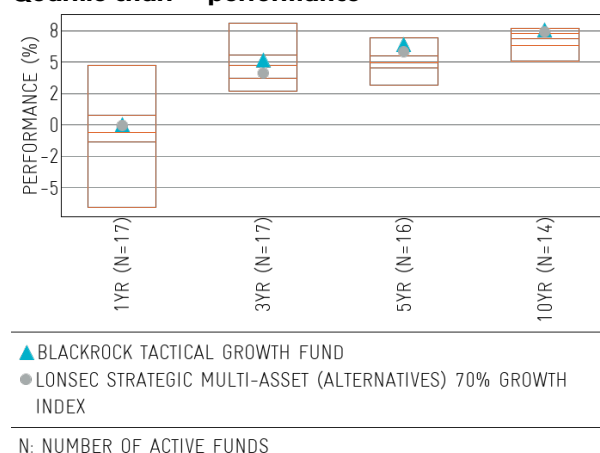
### Risk-return chart over three years



### Quartile chart — risk



### Quartile chart — performance



# BlackRock Tactical Growth Fund

## Glossary

**Total return** 'Top line' actual return, after fees  
**Excess return** Return in excess of the benchmark return  
**Standard deviation** Volatility of monthly Absolute Returns  
**Tracking error** Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)  
**Sharpe ratio** Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)  
**Information ratio** Relative reward for relative risk taken (Excess Returns / Tracking Error)  
**Worst drawdown** The worst cumulative loss ('peak to trough') experienced over the period assessed  
**Time to recovery** The number of months taken to recover the Worst Drawdown  
**Snail Trail** A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

## About Lonsec

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## Analyst Disclosure and Certification

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