

# BLACKROCK GLOBAL ALLOCATION FUND (AUST)

BLACKROCK®

FUND UPDATE

30 November 2021

## Investment Performance (%)

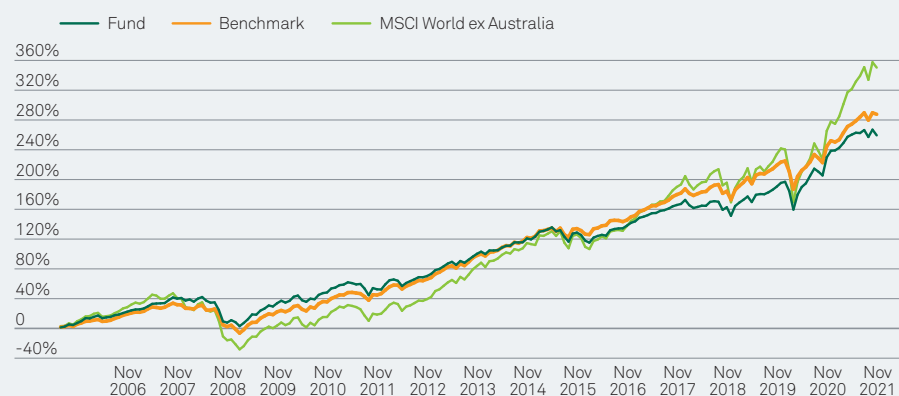
		1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
Return	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	-2.08	-1.94	6.13	8.97	10.72	8.42	8.10
	Internal Benchmark	-0.54	-0.52	10.06	12.48	10.74	9.47	8.60
	MSCI World ex Australia Hedged in AUD (For comparative purposes)	-1.57	-0.13	19.15	23.26	15.27	13.78	-
Risk <sup>^</sup>	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	-	-	-	-	10.83	8.90	8.86
	MSCI World ex Australia Hedged in AUD* (For comparative purposes)	-	-	-	-	17.41	14.35	14.31

<sup>^</sup> Risk is measured as standard deviation of monthly returns, annualised.

\*Fund inception: 27/06/2005. The Diversified Benchmark return from 30 June 2014 to 30 September 2016 has been updated as at 26th September 2016 following a re-statement of the FTSE World ex US AUD Hedged Index, which makes up 0.24% of the diversified benchmark allocation, by FTSE. The Diversified Benchmark return for this period had previously been overstated by 0.38%. Despite the update of the return for this period, there was no change or impact to the fund performance or unit pricing for the fund, which was unaffected by the data previously provided by FTSE and continued to be correctly stated during this period.

Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised. 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 and does not include the effect of taxes. Refer to Fund details section for actual inception dates. The benchmark is a diversified allocation of 36% S&P 500 Index (Total Return hedged in AUD), 24% FTSE World Index ex US Index (Total Return hedged in AUD), 24% Merrill Lynch US Government Index (0-5 yr Treasury hedged in AUD) and 16% Citigroup World ex US Government Bond Index (hedged in AUD).

## Cumulative Performance to 30 November 2021



## Current Portfolio Strategy

▶ Global stocks fell during November as news of the rapid spread of the Omicron variant reached investors over the Thanksgiving holiday. Although the medical community has not yet been able to determine the severity of this new COVID strain, nor whether existing vaccines/treatments will be effective against it, stocks declined sharply at the back end of the month, as concerns about travel restrictions and the possibility of new lockdowns weighed on investment sentiment. In addition, comments from Fed Chairman, Jerome Powell, that the recent series of elevated inflation prints could justify ending the Fed's asset purchase program more quickly than previously communicated, sent global stocks down even further on the final trading day of the month. Despite continuing uncertainty around the regulatory environment, Chinese stocks, as represented by the Shanghai Composite Index, managed to outperform most other major equity indexes, while European, Japanese and

## Monthly key portfolio themes

▶ 66% equities, 19% fixed income, 15% cash, 0% Precious Metal.

### ▶ Regions:

Overweight: U.S., Europe, China

Underweight: Japan and Australia

### Sectors:

Overweight: Consumer discretionary, healthcare, energy, communication services, materials, industrials

Underweight: Consumer Staples, Financials and Real Estate

▶ Given the current environment, we maintain exposure to cash equivalents as we believe it to be a more efficient means to hedge equity risk compared to short- and intermediate-term U.S. Treasuries. We also hold cash as a source of funding as we look to opportunistically deploy capital.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

other emerging market equities lagged. In the U.S., large-cap stocks, as represented by the S&P 500 Index, significantly outperformed small-cap stocks, as represented by the Russell 2000 Index. Small cap underperformance was driven by concerns related to the pace of economic growth and a preference for higher quality assets. High quality bonds such as U.S. Treasuries, municipals, and U.S. investment grade bonds experienced gains, while more aggressive sectors within global fixed income, including U.S. high yield bonds, International Sovereigns, and Emerging Market Sovereigns suffered declines as investors shunned riskier asset classes. An appreciating U.S. dollar also contributed to the price declines of most international and emerging market bond indexes.

▶ Across all major asset class, we continue to believe that equities offer investors the best risk-reward opportunities. We believe stocks are likely to churn in the very near-term given uncertainty over the Omicron variant and a faster removal of accommodative monetary policy. That said we think a combination of still strong, above-trend growth, low rates, and significant liquidity suggest stocks ending the year moderately higher. That said, supply bottlenecks will likely persist in select parts of the economy. This suggests not only a longer period of elevated inflation but a challenge for many business models and thus something the team is continuing to closely monitor. Within fixed income, we believe that above average U.S. economic growth is likely to cause U.S. real interest rates to continue to follow a modestly upward trajectory. Any backup in long-term rates is likely to be contained given the insatiable appetite for yield. As a result, we remain significantly underweight duration via exposure to developed market government bonds. Our preference is to keep positioning in less duration sensitive assets, such as high yield, securitized assets, and emerging market debt. In-line with the fund's risk aware mandate, we look to balance exposure to risk assets with portfolio hedges, expressed through an increasing reliance on cash, an overweight to the U.S. Dollar and derivatives given diminished efficacy of traditional hedges such as duration and gold in the current environment.

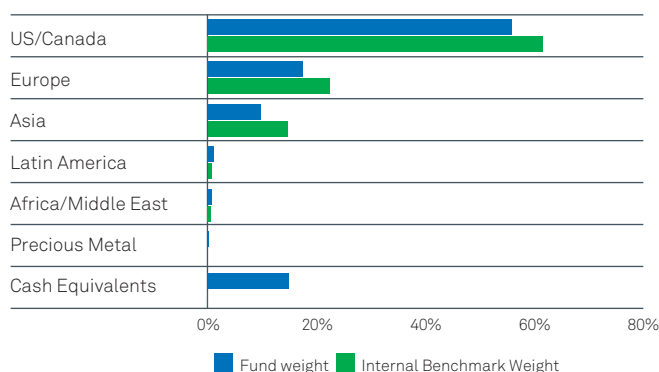
▶ Looking ahead, we believe sector positioning will be key in an economy that while still growing at above trend levels, is likely to decelerate in 2022. Within equities, positioning reflects a barbell approach with exposure to secular growth areas particularly in consumer discretionary, healthcare, and key segments of the technology sector, balanced with quality cyclical exposure that would benefit from a continued recovery in the economy and may also continue to benefit from rising input costs, including energy, materials, and select industrials.

▶ We remain underweight "defensive" sectors, notably Consumer Staples and REITs as a continued rise in interest rates could cause these slower growing, less economically sensitive sectors to lag the broader market.

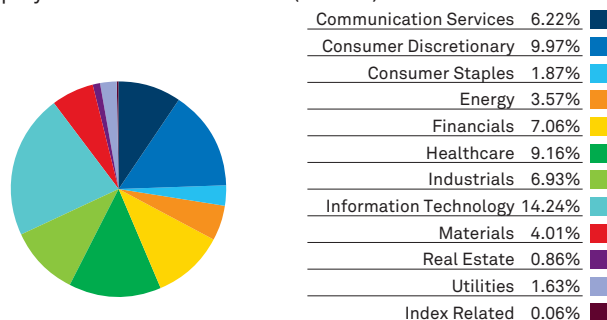
▶ Over the month, we pared back exposure to software platform companies by selling covered calls against a portion of the existing positioning. Overwrites were focused on individual stocks where the team believed we could harvest an attractive premium. This allowed us to capture some additional premium amidst higher volatility as well as manage exposure in the near term to areas that have historically been more interest rate sensitive.

▶ We continue to favour the U.S. consumer given the record levels of household wealth, with exposure focused on select retail, apparel, and auto companies. Depending on the near-term path of the virus, we may witness some deceleration in spending on services, including travel & leisure. That said, the fundamentals of households remain incredibly strong with record wealth, record low debt servicing costs, still elevated savings, and a quickly healing labour market. This suggests that even if service spending dips, goods spending is likely to hold up. Over the month, we added to select auto companies with business models that are well positioned for the transition to electric vehicles and supply-related constraints helping to keep end demand (and auto margins) very strong.

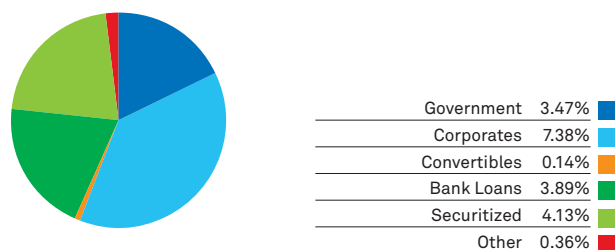
### Regional Exposure as of month end



### Equity Sectors as of month end (65.58%)



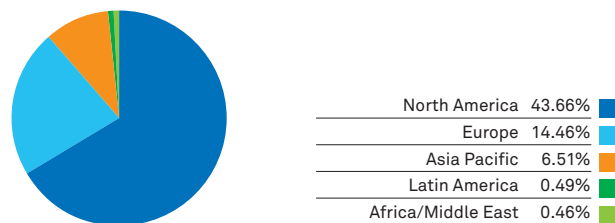
### Fixed Income Sectors as of month end (19.37%)



### Cash as of month end (14.87%)

### Precious Metals (0.18%)

### Equity Regional Exposures as of month end



- ▶ We remain mindful of inflationary risks associated with supply chain disruptions and higher wages; accordingly, we anticipate above average levels of price increases into 2022. That said, we do not think we are going back to the doubledigit annual inflation environment experienced in the 1970's. Portfolio Manager, Rick Rieder, recently published a market insight outlining the key reasons why the current situation is different from the past.
- ▶ In the current environment, we are significantly underweight quality fixed income assets such as U.S. Treasuries and developed market sovereigns. Total portfolio duration was +0.8 years as of November month-end, a significant underweight relative to a benchmark duration of 2.7 years. While market liquidity and demand for yield is likely to prevent a major backup in rates, we remain underweight duration as we believe real rates should start to normalize in the coming months.
- ▶ We continue to emphasize spread assets with exposure in a diversified basket of credit, EM sovereigns and securitized debt. The aggregate exposure of these off-benchmark fixed income asset classes represented ~10% of AUM and is a key differentiator vs. more traditional "60/40" portfolios.
- ▶ Within credit, most of the exposure is in U.S. high yield which has historically been less sensitive to duration risk as compared to investment grade debt.
- ▶ We continue to favour securitized debt as we believe the asset class offers attractive carry and total return potential relative to other fixed income assets. Furthermore, securitized assets have historically tended to be less sensitive to interest rates than traditional high-quality bond sectors, which could bode well in a rising rate environment. Over the month, we reduced exposure to some of the highest-quality positions within as we believed further upside potential was limited.
- ▶ Within emerging markets, exposure is diversified within select markets, notably Chinese government bonds, and in Latin America which we believe offer stability with potential for yield and/or spread compression.
- ▶ We have minimal exposure to gold-related securities (0.2% of assets) given our expectation for strong economic growth, an increase in real interest rates, and a strong USD. While gold can be an effective partial hedge for inflation long-term, we would rather increase exposure to companies with pricing power who can raise prices as inputs costs rise, as a hedge against near-term inflation.
- ▶ Overweight to the U.S. Dollar (70% as of month-end), primarily at the expense of the euro. This overweight reflects the belief that the USD can serve as a more reliable hedge to equities in an environment of increased rate volatility vs. traditional hedges such as gold or US Duration. In a recent market insight, Portfolio Manager, Russ Koesterich, discusses the team's continued preference for the dollar as a hedge.
- ▶ Maintained overweight to the U.S. Dollar (69% as of month-end), primarily at the expense of the euro. This overweight reflects the belief that the USD can serve as a more reliable hedge in the current environment vs. traditional hedges such as gold or US Duration.

## About the Fund

### What is the objective of the fund?

- ▶ The objective of the Fund is to maximise total investment returns while managing risk and the Fund is generally diversified across markets, industries and issuers.
- ▶ The types of securities and markets the Fund invests in will vary in response to changing market conditions and economic trends. For example, the Fund may be substantially invested in Japanese shares when they appear undervalued relative to other world share markets. Alternatively greater emphasis may be placed on fixed income securities when the risk of owning shares appears significant. With this approach, the Global Allocation Team strives to achieve attractive total returns, while spreading the risks associated with investing in only one asset class or market.

### Who should consider the Fund?

- ▶ The Fund should be considered by investors seeking a single fund that offers broad global exposure, or an investment that is not constrained by MSCI benchmarks.
- ▶ The Fund is a "one stop shop". Investors will benefit from the active security selection, which aims to take advantage of global investment opportunities wherever and whenever they arise.

### Fund Details

BlackRock Global Allocation Fund (Aust)	
Inception Date	8 June 2005
Fund Size	589 mil
Management Fee	0.20% p.a.
Performance Fee	12.50%

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