

BLACKROCK GLOBAL ALLOCATION FUND (AUST)

BLACKROCK®

FUND UPDATE

31 December 2020

Investment Performance (%)

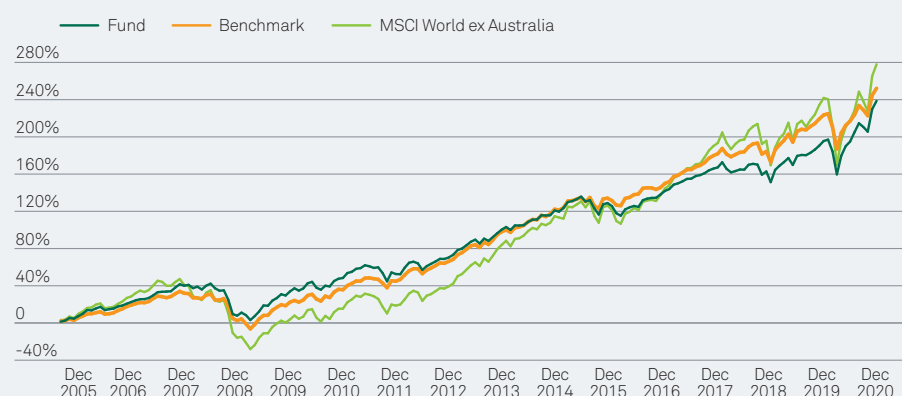
		1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
Return	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	2.68	9.02	14.57	14.57	7.94	8.30	8.19
	Internal Benchmark	2.20	7.09	8.87	8.87	7.56	8.74	8.46
	MSCI World ex Australia Hedged in AUD (For comparative purposes)	3.45	11.73	10.57	10.57	9.02	11.41	-
Risk[^]	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	-	-	-	-	11.09	8.99	9.02
	MSCI World ex Australia Hedged in AUD* (For comparative purposes)	-	-	-	-	17.73	14.39	14.54

[^] 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 31 December 2020



Current Portfolio Strategy

▶ After an historic rally in November, global stocks continued their upward trajectory in December in response to the U.S government passing a second COVID-19 relief stimulus bill that exceeded \$900 billion of additional spending. The rally in equities was led by U.S. small caps which responded positively from the anticipation of a more expedited reopening of the U.S. economy. Emerging market stocks also outperformed global equities due to a weaker USD, as well as the market's expectation that advancements in Astra Zeneca's COVID-19 vaccine would lead to a more rapid deployment (due to lower costs and a less complex distribution model.) Within fixed income, most segments were positive for the month, with the largest returns coming from international sovereign and emerging market bonds which benefited from a weaker dollar. Within U.S. credit, high yield bonds continued to rally as spreads compressed significantly across the asset class. Longer- dated U.S. Treasuries

Monthly key portfolio themes

▶ 67% equities, 23% fixed income, 8% cash, 1% Precious Metal.
The figures don't equal 100% due to rounding.

▶ Regions:

Overweight: U.S., Continental Europe, China

Underweight: Japan, Australia, Canada, and Latin America

▶ Sectors:

Overweight: Information technology, consumer discretionary, healthcare, materials, industrials, communication services.

Underweight: Consumer staples, financials, real estate.

▶ Given the current environment, we believe that cash equivalents may 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.

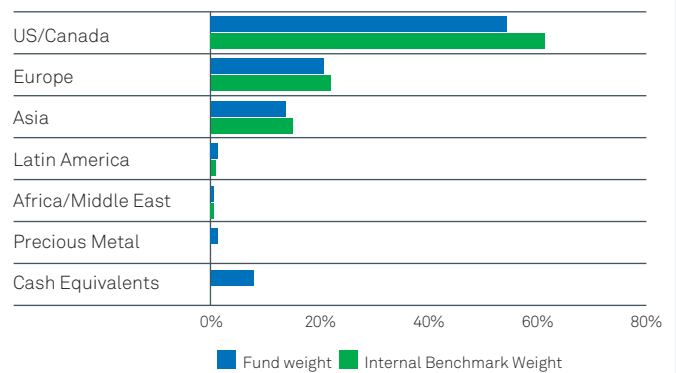
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- Market Insights & Commentary
- Fund Performance
- Unit Prices

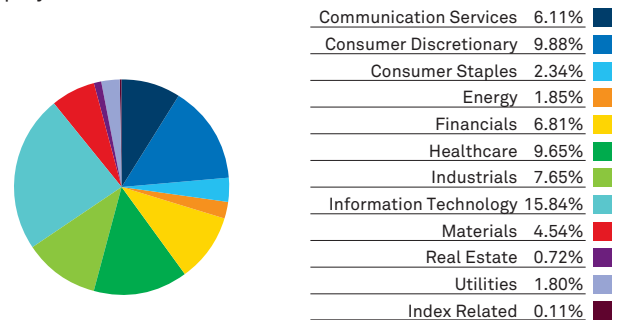
were one of the few sectors of the bond market to experience losses, as investors generally sold Treasuries in search of higher potential returns in more aggressive asset classes.

- ▶ Looking ahead, we expect 2021 U.S. growth to be above consensus, supported by a deleveraged consumer, record wealth levels, additional stimulus, positive impact of the commencement of widespread vaccine distribution, and a continuation of super-accommodative monetary policy. Given the supportive macro backdrop, we remain overweight equities and credit. Equity exposure is balanced between secular growth companies positioned to benefit from long-term growth and quality cyclical companies that would benefit from a sustained economic recovery in the near-term. In a recent market insight, Russ Koesterich discussed the resilience of the consumer with a focus on market segments that both benefit from solid consumption and secular shifts in wallet-share. Within fixed income, consistent with our view of an improving economy, we remain underweight developed market government bonds relative to the benchmark. While we still believe that U.S. duration is an effective partial hedge against equity risk, we have reduced exposure given the diminished efficacy as a hedge in the sustained low rate environment. Given the dearth of income as a result of the sustained low rate environment, we maintain exposure to credit (primarily high yield but also some investment grade) and to select emerging market sovereign debt as additional sources of yield that should continue to benefit from aging demographics, increasing demand for income, and an improving global economy. In line with the fund's risk aware mandate, we look to balance exposure to risk assets with a diversified selection of portfolio hedges including (the afore mentioned) duration, cash, derivatives (most notably options to capture dislocations in volatility), gold-related securities, and FX positioning.
- ▶ Regionally, we are overweight equities in the United States and to a lesser extent, China with an emphasis on high quality and innovative companies that are positioned to generate consistent earnings. We also continue to be overweight European equities (ex-U.K.) as a more tactical position to increase exposure to cyclical industries given potential for joint stimulus efforts to act as a catalyst for growth in the near-term.
- ▶ We remain underweight Japan, Australia, and Canada. Our underweight positions within these countries are due primarily to the sector composition of their equity markets, including significant weights to financials and secularly challenged industries, such as mining and oil & gas production.
- ▶ From a sector perspective, we continued to lean into quality cyclical exposure across home builders, specialty chemicals, manufacturing, semiconductors and payment companies with a focus on companies that exhibit profitability, earnings consistency and will benefit from a recovering economy.
- ▶ We increased our underweight in consumer staples as we reduced exposure to larger U.S. and European producers given expectation that spending on certain consumer essentials could slow as we believe that much of the demand for these items had been pulled forward.
- ▶ Within the derivatives space, we found opportunities in the options market to trade volatility to augment our core equity positions and manage the portfolio's risk/return profile. Amidst increased volatility in the options market over the month, the team wrote covered call options at elevated price levels that we would be comfortable selling the underlying security. In addition to helping the team manage the portfolio's overall risk level, selling options on certain stocks which we believe investors have overestimated the near-term volatility and affords the team a mechanism for generating incremental income in a low-yield environment, without increasing the portfolio's duration risk.
- ▶ As of December month-end, portfolio duration was 1.9 years, an underweight relative to the 2.75 duration of the fund's reference

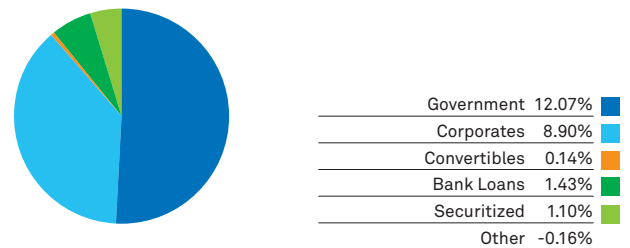
Regional Exposure as of month end



Equity Sectors as of month end (67.30%)



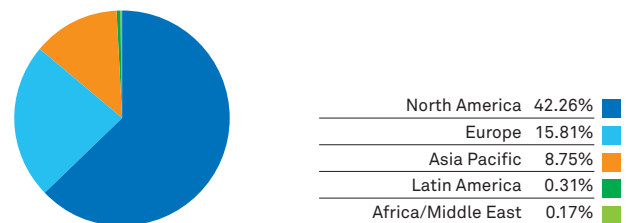
Fixed Income Sectors as of month end (23.48%)



Cash as of month end (7.91%)

Precious Metals (1.31%)

Equity Regional Exposures as of month end



benchmark. Over the month, we continued to reduce exposure as we believe the efficacy of government bonds as a hedge to equity volatility has been diminished meaningfully.

- ▶ Despite the reduction in duration, we maintain a modest weighting in high quality sovereign bonds as a partial hedge against equity risk. Within our nominal U.S. Treasury positioning, we tactically manage our yield curve exposure to maximize the hedging properties. As the Federal Reserve has reduced policy rates to historic lows, effectively anchoring short-term rates, our exposure in U.S. Treasuries is mainly in the mid to long end of the curve given the risk/return profile and marginal carry provided.
- ▶ While we maintain an allocation to 5 and 10-year U.S. TIPs as way to diversify our exposure to government bonds, we did trim exposure to the asset class over the month. Our expectation is that while inflation will be moderately higher in 2021, levels will likely be constrained by aging demographics and technology.
- ▶ We continue to build yield into the portfolio via high-quality spread assets with a preference for a diversified basket of high yield and investment grade credit securities, as well as select EM sovereigns and securitized debt.
- ▶ Within high yield, while we have observed moderate spread compression over the past several months, it is our view the asset class continues to offer more attractive relative value as compared to higher quality segments of the global fixed income markets.
- ▶ Within emerging markets, exposure remains diversified with an emphasis on select countries which we believe to offer stability with the potential for yield or spread compression.
- ▶ The aggregate exposure of these off-benchmark fixed income asset classes currently exceeds ~11% of AUM and helps to differentiate Global Allocation from more traditional “60/40” portfolios.
- ▶ We reduced exposure to gold-related securities over the month given its increased correlation to risk assets and diminished efficacy as a hedge (like duration) and rotated into other portfolio hedges such as cash and currency pairs that we feel provide ample diversification benefits in the current environment.
- ▶ We have reduced exposure to the U.S. Dollar in recent months and are now neutrally positioned given diminished hedging ability. While we think the USD could weaken further, we believe that the broader global dependency on the USD for trade and commerce which should act as a floor. We remain overweight the euro and Japanese yen given their historical roles as reliable hedges during periods of market volatility.

- ▶ We are also short select currencies that have material exposure to global commodities and/or have a higher beta to the market such as the Australian Dollar and select Emerging Market currencies. Our view is that in a “risk off” environment, many of these currencies are likely to underperform certain DM currencies such as the USD and JPY. Given the diminished efficacy of traditional hedges such as duration, gold and the US Dollar, this is another way for the team to augment downside mitigation in the portfolio.

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	609 mil
Management Fee	0.20% p.a.
Performance Fee	12.50%

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