

BLACKROCK GLOBAL ALLOCATION FUND (AUST)

BLACKROCK®

FUND UPDATE

30 April 2022

Investment Performance (%)

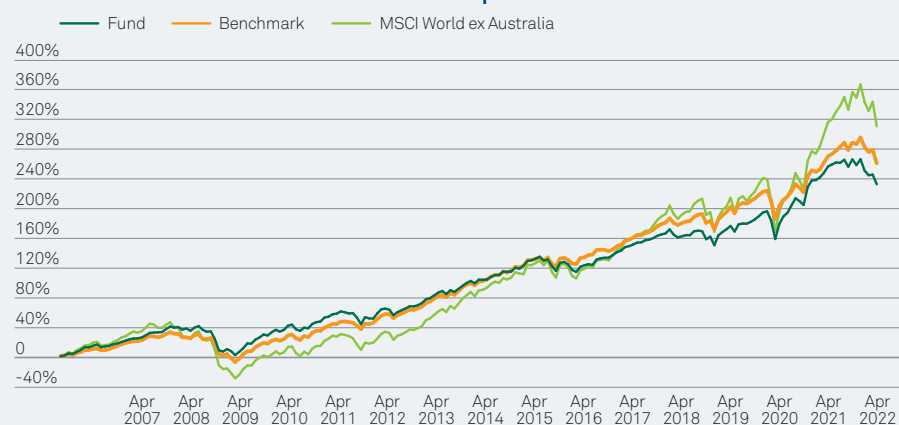
		1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
Return	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	-3.72	-5.24	-9.15	-6.66	6.35	5.60	7.42
	Internal Benchmark	-4.84	-5.78	-8.84	-2.61	6.09	6.59	7.93
	MSCI World ex Australia Hedged in AUD (For comparative purposes)	-7.44	-7.40	-12.09	-1.36	9.30	9.61	-
Risk [^]	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	-	-	-	-	10.99	9.42	8.92
	MSCI World ex Australia Hedged in AUD* (For comparative purposes)	-	-	-	-	17.40	15.22	14.40

[^] 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 April 2022



Current Portfolio Strategy

- ▶ Global stock and bond markets fell sharply in April as several members of the Federal Open Market Committee signalled that they were preparing to rapidly raise short-term U.S. interest rates in the coming months. Even a surprise contraction in U.S. Q1'22 GDP of -1.4% (due to a large U.S. trade deficit and a significant inventory re-stock during Q4'21) was dismissed by market participants as being immaterial to the Fed in regard to its view on the need to raise rates and reduce its balance sheet. The sharp rise in U.S. interest rates (both real and nominal) acted to significantly strengthen the U.S. dollar, which rose briskly relative to all other major currencies in Europe and Asia.
- ▶ U.S. large-cap stocks, as represented by the S&P 500 Index, fell -8.7% in April, the index's worst monthly loss since the onset of COVID-19 in March 2020. U.S. small-cap stocks, as represented

Monthly key portfolio themes

- ▶ 55% equities, 15% fixed income, 29% cash, 0% Precious Metal.

▶ Regions:

Overweight: China, Europe

Underweight: Japan, Canada, Australia

▶ Sectors:

Overweight: Energy, Consumer Discretionary, Materials

Underweight: Financials, Consumer Staples, Information Technology, REITs, Industrials, Utilities

- ▶ Given the current environment, we are maintaining an elevated exposure to cash equivalents, as we believe cash to be a more efficient means to hedge equity risk relative to duration sensitive U.S. Treasuries. Considering the current elevated level of market volatility, our sizable cash balances also act as a source of funding as we look to opportunistically deploy capital.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

by the Russell 2000 Index, declined every more sharply, falling nearly -10%. Meanwhile, the NASDAQ Composite Index fell -13% in April, it's worst month since the Global Financial Crisis in October 2008. The NASDAQ's YTD loss of -21% through April 30 not only places it in correction territory, but also marks the worst start to the year for NASDAQ in its history. International stocks fared poorly as well, with equity markets in Asia underperforming their U.S. peers.

▶ Bonds provided no protection for investors in April, falling sharply alongside stocks. After suffering its worst quarterly performance since 1981, losses on the U.S. 10-year Treasury Index actually accelerated in April, falling -4.6% and posting its biggest monthly decline so far in 2022, in what already had already been a historic year for bond losses. International bond markets fell even more substantially than Treasuries, as rapidly rising local interest rates, combined with an appreciating U.S. dollar, pummeled overseas bond indexes across both developed and emerging markets. Credit also experienced a difficult month from a performance perspective, with U.S. investment grade and high yield bonds enduring losses of -5.0% and -3.7%, respectively.

▶ We expect that the Fed will soon accelerate increases in the Fed funds rate, while simultaneously beginning the process of reducing the size of its balance sheet. These policy changes will act to drain excess liquidity from both the real economy and financial markets and may also continue to place upward pressure on the U.S. dollar. The sharp increase in hawkish comments from several members of the Federal Reserve Board, including Chair Powell, has been the proximate cause for much of the increase in volatility across capital markets that we have experienced in 2022. While a significantly tighter monetary posture will likely help the Fed drain excess liquidity from the financial system, tighter U.S. financial conditions are unlikely to have any material effect on the food and energy inflation being exacerbated by the war in Ukraine, nor will it have any impact on supply-chain disruptions caused by China's zero-tolerance policy toward COVID. While April's price correction has certainly compressed stock valuations, we remain focused on both the economy and the Fed's future path and the degree to which they will tightening policy.

▶ Despite a surprisingly weak GDP report for Q1, we do not anticipate a U.S. recession in 2022. Considering the pace at which food and energy prices have increased, we would expect U.S. consumers to pull back somewhat on current spending levels. That said, it is our opinion that the financial health of the U.S. consumer remains very strong in historical terms. U.S. consumers are still sitting on nearly \$2.5 trillion in unspent fiscal stimulus, while debt levels are at generational lows, and the U.S. job market remains particularly robust. Consequently, we don't believe that a modest reduction in consumer spending is a recessionary indicator. U.S. corporate balance sheets, meanwhile, also remain quite strong.

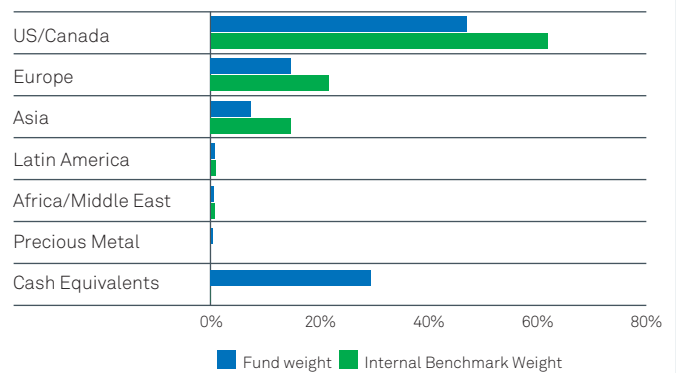
▶ The losses suffered by fixed income investors so far in 2022 have been historic. We believe that rates have room to continue to move moderately higher in the near-term. That said, we acknowledge the price correction in bonds has been so material in recent months, that some value is beginning to emerge across a number of sectors within the fixed income universe. For the time being, however, we have opted to remain underweight interest rate sensitivity, as we await further action from the Fed. We therefore prefer to remain materially underweight fixed income (and duration), while continuing to rely on elevated cash allocations (~27%) while maintaining an overweight to the U.S. dollar (67% vs. 60%) to help manage volatility.

▶ The changes we made to the equity portion of the portfolio were modest during April, however, we did continue to reduce overall beta. The portfolio's total equity exposure declined -1.7% month-over-month, driven primarily by the sharp decline in global equity prices, rather than by proactive stock sales by the investment team.

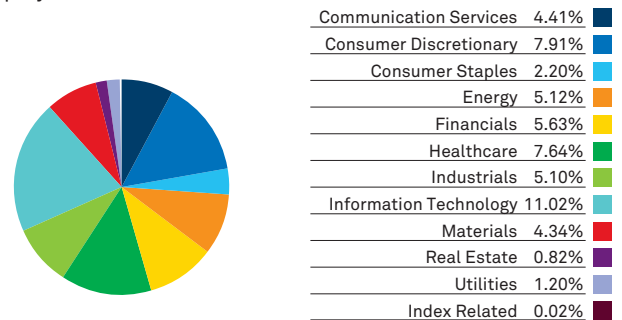
▶ From a country/regional perspective, our largest reductions in equity positioning occurred in the U.S., (lowered by -1.3%) bringing the portfolio's overall exposure to U.S. stocks to a neutral posture relative to our reference benchmark. The team also reduced the portfolio's exposure to Asian equities by approximately -0.5%. The portfolio's overall European equity exposure was left largely unchanged in April, following a material reduction in net exposure to the region in March.

▶ From a sector perspective, the most significant adjustments we made in April included modest reductions in the Technology, Healthcare,

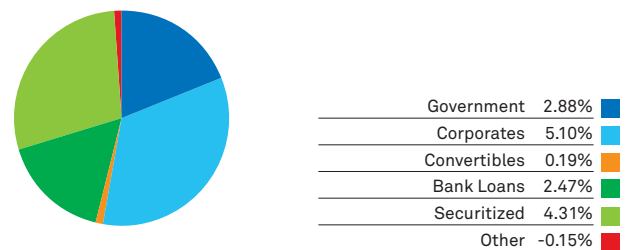
Regional Exposure as of month end



Equity Sectors as of month end (55.42%)



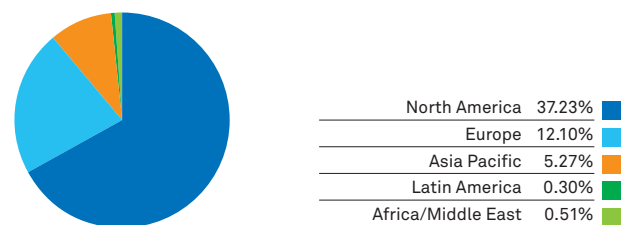
Fixed Income Sectors as of month end (14.79%)



Cash as of month end (29.47%)

Precious Metals (0.33%)

Equity Regional Exposures as of month end



Communication Services, and Industrials sectors. Some of the reductions in these sectors were due to negative price movement in global equity markets during the month, along with reduced index exposure in S&P 500 Index options (particularly the Technology and Industrials reductions).

- ▶ However, within Communication Services, we did lower some exposure to major social media / online advertising companies, along with certain U.S. entertainment / streaming service firms. These reductions were primarily idiosyncratic in nature but also reflect some degree of scepticism about the strength of online advertising, as individuals continue to spend less time working from home. The reductions in Healthcare, meanwhile, were very idiosyncratic and pertained to valuation levels of a pair of pharmaceutical companies.
- ▶ As was the case in March, the lone sector where we added to in any significance was the Energy sector, increasing an existing overweight. Consistent with our view that Energy prices may stay elevated over the intermediate-term, due to supply disruptions and Western sanctions, we added specific exposure to major integrated oil companies, specifically in the U.S.
- ▶ We continue to remain mindful of inflationary risks associated with supply chain disruptions and higher wages; accordingly, we anticipate above average levels of price increases through the first half of 2022. We are also of the view that major central banks are inclined to raise interest rates more quickly than in prior cycles in an effort to combat inflation prints that are at their highest levels since the early 1980s.
- ▶ In the current environment, we remain significantly underweight quality fixed income assets such as U.S. Treasuries and developed market sovereigns in Europe and Japan. Total portfolio duration was +0.3 years as of April month-end, a reduction from a level of +0.5 years on 12/31/21, and a significant underweight relative to a benchmark duration of 2.6 years. That said, on the margin, we did add some short-duration U.S. Treasury bonds into the portfolio during April, due to our view that the front-end of the curve offers some value and excellent liquidity.
- ▶ Despite a significant underweight to fixed income, we continue to emphasize spread assets with exposure in a diversified basket of credit, securitized debt, and various duration hedges. The aggregate exposure of the portfolio's off-benchmark fixed income asset classes represented -6% of AUM.
- ▶ Within emerging markets, exposure is diversified within select markets, notably Latin American sovereign bonds which we believe offer the potential for capital appreciation/spread compression. As major Energy and commodity exporting region, we believe that a variety of Latin American sovereign bonds offer attractive valuations relative to their developed market peers. That said, we did trim the portfolio's overall exposure to Emerging Market bonds from 1.8% at month-end March to 1.6% at month-end in April, due to our concerns that rapidly tightening financial conditions are putting pressure on emerging market economies and many of their currencies.

- ▶ We have minimal exposure to gold-related securities (0.2% of assets) given our expectation that real interest rates are likely to rise from historically low levels. 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 (67% vs 60% for benchmark). In an environment where few asset classes are likely to be effective hedges against equity market volatility, we believe an overweight position in the USD can help mitigate aggregate portfolio risk, particularly in an environment whereby the U.S. Federal Reserve appears to be much more readily committed to raising short-term rates relative to other major central banks such as the European Central Bank (ECB), the Bank of Japan (BoJ), and the People's Bank of China (PBoC).

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

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