

BLACKROCK GLOBAL ALLOCATION FUND (AUST)

BLACKROCK®

FUND UPDATE

30 June 2022

Investment Performance (%)

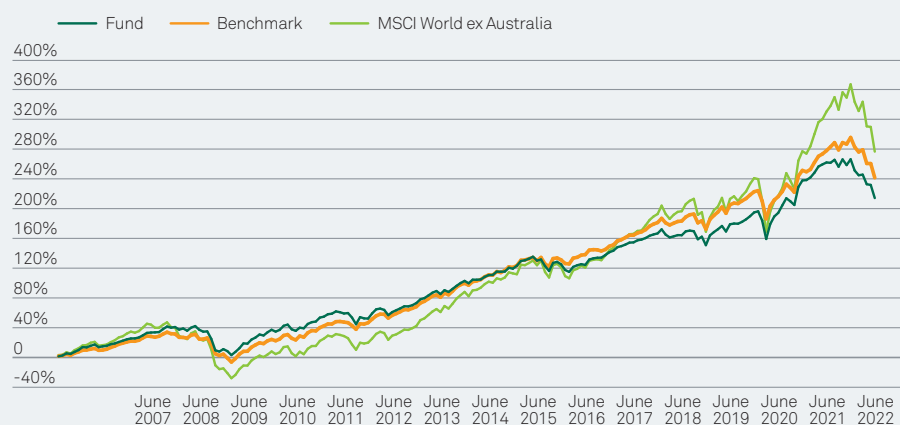
		1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
Return	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	-5.32	-9.11	-14.23	-13.22	4.05	4.15	6.98
	Internal Benchmark	-5.30	-9.93	-13.71	-9.66	3.81	5.18	7.50
	MSCI World ex Australia Hedged in AUD (For comparative purposes)	-8.10	-15.10	-19.37	-12.51	6.36	7.33	-
Risk [^]	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	-	-	-	-	11.21	9.77	8.99
	MSCI World ex Australia Hedged in AUD* (For comparative purposes)	-	-	-	-	17.48	15.73	14.49

[^] 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 June 2022



Current Portfolio Strategy

▶ Global stock and bond markets resumed their declines in June as investors remain concerned that central banks will tighten monetary policy too aggressively, causing an unintended economic contraction. The U.S. Federal Reserve increased the Fed funds rate by 75 bps in June, its highest periodic increase in the bank's key rate gauge since 1994, and strongly signalled that it will continue to increase the Fed funds rate at its upcoming July meeting. Inflation fears were top of mind for investors during the first half of June, as an elevated core CPI print for May caused bond yields to rise sharply. However, during the final two weeks of the month, concerns about economic growth moved to the forefront of investors' concerns, causing stocks to fall sharply along with bond yields. Global stocks, as measured by the MSCI World Index, fell -8.7% in June, posting their worst monthly performance so far in 2022. US equities, as measured by

Monthly key portfolio themes

▶ 53% equities, 16% fixed income, 31% cash, 0% Precious Metal.

Regions:

Overweight: China

Underweight: Japan, Australia, U.S., and Europe

Sectors:

Overweight: Energy, Consumer Discretionary, Materials

Underweight: Financials, Consumer Staples, Information Technology, Industrials, REITs, and 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.

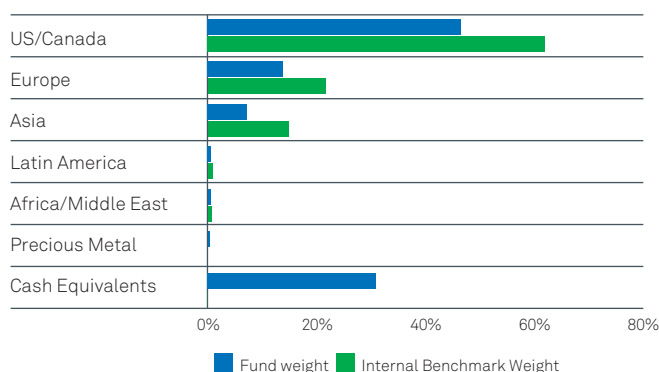
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- Market Insights & Commentary
- Fund Performance
- Unit Prices

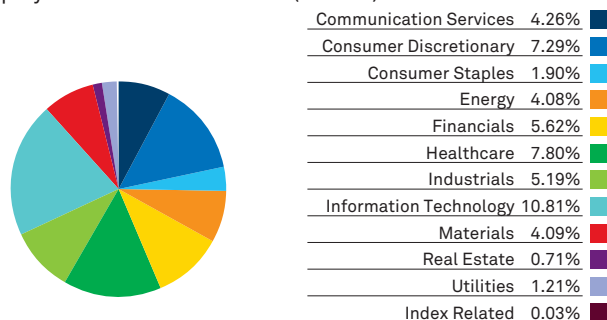
the S&P 500 fell -8.3% during June and is now -20% on a YTD basis, capping the index's worst first half of any calendar year since 1970. Within bonds, the Bloomberg U.S. Aggregate Bond Index, fell -1.6% in June and has now fallen -10.4% year-to-date, marking the worst first half performance for the index on record. U.S. high yield bonds and emerging market bonds fell particularly sharply during the month, as these riskier corners of the fixed income markets proved particularly vulnerable to the overall "risk off" tone and growing recession fears that dominated investor sentiment.

- ▶ Looking ahead, we believe the major risk to consumption and the broader economy isn't an organic growth slowdown but the degree to which extreme food and energy price increases lead central banks to raise interest rates beyond the level that would have otherwise been necessary. Despite tightening financial conditions, we expect the U.S. to avoid recession in 2022 due to the relative strength of the economy coming into this slowdown. Capital spending is still near its peak, household and corporate balance sheets are pristine, household excess savings are robust, and the tightness in the labor market should provide structural support for consumption, even if it is slowing. This aggregate strength should be able to absorb a large amount of tightening – and slow down substantially – without stalling out economic growth. If our base case proves too optimistic, and Fed policy sends the U.S. into recession, we believe any contraction in economic activity is likely to be modest in historical terms, given the strength of consumer and corporate balance sheets. In a recent market insight published by PM, Rick Rieder, we outline a summary of the team's macro views. In line with this cautious outlook, positioning remains underweight equities and duration, with a larger balance in cash to help buffer market volatility.
- ▶ Total equity exposure was reduced by ~1% over the month, mainly driven by market movement as equities declined ~8%. While the team remains patient amidst the heightened volatility, we did opportunistically manage exposure in select sectors, adding to high conviction segments that had sold off and trimming exposure that had outperformed the market, notably within energy.
- ▶ Sector positioning reflects a barbell approach favouring secular growth themes alongside quality cyclicals. This reflects a desire to lean into "GARP" (growth at a reasonable price) and quality (companies that can generate strong free cash flows and have low leverage ratios).
- ▶ Within healthcare, the Fund added to select U.S. pharmaceutical companies with robust pipeline of products to support free cash flow growth as well as a U.S. medical device company that is a leader in diabetes solutions with key products anticipated to launch later this year.
- ▶ The Fund added exposure to select European luxury retailers positioned to benefit from significant pent-up demand and a strong U.S. consumer, with a lower impact from adverse pricing impacts associated with higher inflation.
- ▶ While energy remains the Fund's largest overweight, given the very strong sector performance YTD the team took profits in select oil & gas producers. This slight reduction also aligns with a slightly more cautious view on a potential short-term pull back from a broader deceleration in economic growth.
- ▶ Total portfolio duration was +0.8 years as of June month-end, up from +0.7 years as of May month-end. While still a significant underweight relative to a benchmark duration of 2.6 years, the team has slowly added back exposure in the U.S. in recent months given the increase in rates YTD. That said, due to our expectation that rates have further to rise, we are not inclined to significantly increase our duration exposure at the current time.
- ▶ 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 ~7% of AUM and is a key differentiator vs. more traditional "60/40" portfolios.

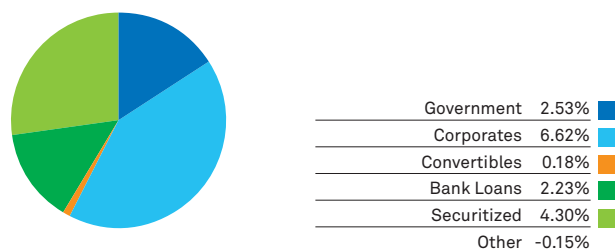
Regional Exposure as of month end



Equity Sectors as of month end (52.99%)



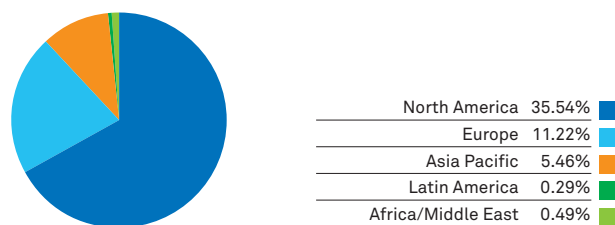
Fixed Income Sectors as of month end (15.72%)



Cash as of month end (30.96%)

Precious Metals (0.33%)

Equity Regional Exposures as of month end



- ▶ Within credit, the team has been opportunistically adding back exposure, both in investment grade and high yield. With the significant back-up in yields YTD, the team believes that credit is once again an attractive source of carry for the portfolio.
- ▶ We continue to maintain exposure to securitized debt (~0.7%) 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 if the Fed continues to increase the Fed funds rate.
- ▶ We have minimal exposure to gold-related securities (0.2% of assets) given our expectation that real interest rates are likely to continue 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	483 mil
Management Fee	0.20% p.a.
Performance Fee	12.50%

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