

# BLACKROCK FIXED INCOME GLOBAL OPPORTUNITIES FUND (AUST)

# BLACKROCK®

FUND UPDATE

28 February 2021

## Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
BlackRock Fixed Income Global Opportunities Fund (Aust) (Gross of Fees) (E Class)*	0.15	1.08	0.15	5.05	3.93	4.93	4.21
BlackRock Fixed Income Global Opportunities Fund (Aust) (Net of Fees) (D Class)^	0.10	0.91	0.04	4.33	3.21	4.20	3.52
Bloomberg AusBond Bank Bill Index <sup>SM</sup>	0.00	0.00	0.00	0.21	1.16	1.44	1.67
Outperformance (Gross of Fees)	0.15	1.08	0.15	4.84	2.76	3.48	2.54

\*Fund inception: 30/08/2014. ^Fund inception: 31/10/2014. The D share class is closed to new investors. 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.

## Portfolio Performance

FIGO generated a positive performance in February.

Our exposure to parts of the credit market in the US and in Europe – both in investment grade and high yield credit – contributed to the performance as credit spreads tightened on the back of positive data regarding future growth prospects. Similarly, our allocation to US equity via call options generated a positive return.

In addition, our allocation to securitised assets in US – particularly to Non-Agency and CLOs – added to the performance as economic fundamentals continue to show healthy signals along with supportive market technical factors.

This was partially offset by our allocation to US treasuries which detracted from the performance as treasuries yields increased during the month. Moreover, government bonds in European and in emerging markets countries followed the US treasuries sell-off, impacting negatively the Fund performance.

## Market Review

The most significant moves in financial markets came from developed market government bond markets with yields selling off sharply across regions including Australia, the UK, the US and Germany. While the magnitude of the sell-off varied across different countries, the moves were broadly synchronised and driven by expectations of faster real economic growth as vaccines are rolled out and lockdown measures are eased. This is against a backdrop of still ultra-accommodative stimulus from central banks, and financial markets have begun to reprice the prospect of this being recalibrated in the coming months and quarters.

The move higher in government bond yields was most pronounced in Australia and UK with idiosyncratic factors such as questions around the efficacy of the Reserve Bank of Australia's (RBA) yield curve control measures, and a faster-than expected roadmap of lockdown easing in the UK, adding further to the sell-off. It was however in the US where the moves drew most attention. Financial market expectations of the first US Federal Reserve (Fed) rate hike were brought forward to March 2023, while a taper of the Fed's bond purchasing programme is expected to happen sooner than initially expected and despite some of the most recent communication from Fed policymakers indicating that any talk of a taper is "premature".

## Portfolio Management Team



**Rick Rieder,**  
Managing Director and  
Portfolio Manager  
33 Years Investment  
Experience



**Bob Miller,**  
Managing Director and  
Portfolio Manager  
32 Years Investment  
Experience



**Aidan Doyle,**  
Director and Portfolio  
Manager  
10 years of investment  
experience

## At A Glance

**Investment objective:** The Fixed Income Global Opportunities Fund seeks to maximise total return. The Fund invests at least 70% of its total assets in fixed income transferable securities denominated in various currencies issued by governments, agencies and companies worldwide. The full spectrum of available securities, including non-investment grade, may be utilised. Currency exposure is flexibly managed.

Management Fee: 0.70% p.a. (Class D Units)

Buy/Sell Spread: N/A

Fund Inception: August 2014

Visit [BlackRock.com.au](https://www.blackrock.com.au) for further information, including:

- Market Insights & Commentary
- Fund Performance
- Unit Prices

In Europe, the European Central Bank (ECB) has voiced concerns about the speed of the move in yields. Speeches by board members Philip Lane and Isabel Schnabel pushed back against what they saw as undue tightening in financial conditions. Meanwhile, former ECB president Mario Draghi was sworn in as a new Prime Minister of Italy, with the newly formed government likely to stay in place until the presidential election in early 2022 or even until the end of the mandate in 2023. Draghi is regarded as one of the most respected and capable people to help guide the country in a move which has been viewed as broadly positive for the country's stability. In China, evidence of a slowdown in the recovery continues to emerge with weaker-than-expected manufacturing PMI's.

While riskier assets came under pressure towards the end of the month given the rise in government bond yields, areas such as high yield credit still generally posted positive returns in aggregate. Indeed, the principal driver of higher government bond yields was positive expectations around economic growth which helped underpin risk sentiment. Emerging markets meanwhile endured a more challenging month as fears of less easy stimulus from developed market central banks weighed on emerging market assets. Investment grade markets also sold off in total return terms, driven by government bond yields although spreads compressed like in high yield markets.

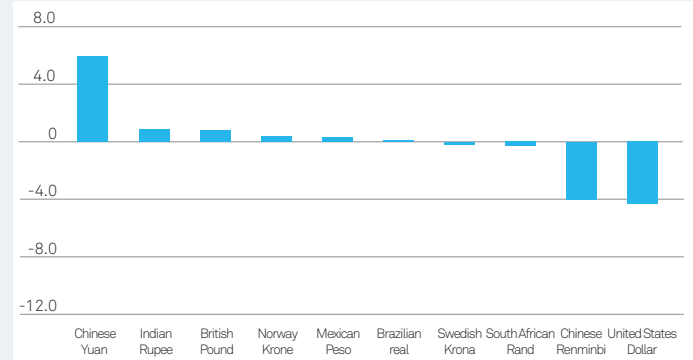
### Portfolio Positioning

Throughout the month, we have continued to reduce the overall duration in the Fund by mainly reducing tactically our exposure to European peripheral spreads – given the tight valuations and the volatile market environment created by the US treasuries sell-off.

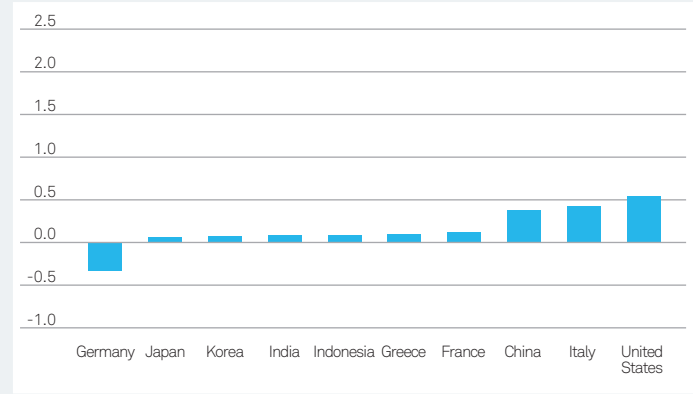
In addition, we continue to maintain our exposure to a diversified set of high-quality securitized assets as valuations still look relatively attractive given strong fundamentals.

Finally, we tactically increased our US equity exposure via call options to express a risk-on view in the portfolio in a more liquid way.

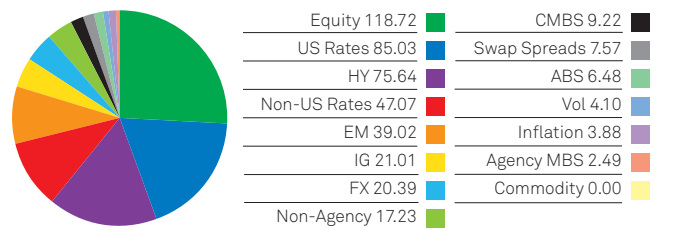
### Active Currency Exposure (%)



### Duration Contribution by Country (Years)

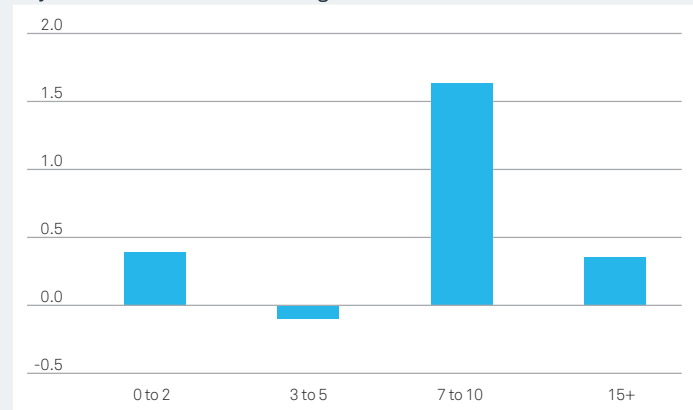


### Strategy Risk Decomposition (bps)



Source: BlackRock Solutions ('BRS') & Bloomberg  
 Ex-ante risk based on the BRS Portfolio Risk model; Pie charts show relative standalone risks of exposures at month end.

### Key Rate Yield Curve Positioning (Years)



## Outlook

The new Covid-19 strains have stirred unease for their potential to spread more easily or lower the efficacy of vaccines. Yet we think recent developments around the new variants are unlikely to challenge the 2021 economic restart as most existing vaccines still appear to be effective against the variants, especially in preventing hospitalizations, key to the economic restart.

For this reason, we expect a strengthening economy with huge fiscal impulses and rising inflation to further drive up nominal yields across core bonds, albeit by less than in similar periods in the past. We also see pent-up demand in contact-intensive services rebounding once restrictions are lifted in the US and euro area – as seen in China and supported by the accumulation in personal savings.

In terms of monetary policies, we expect central banks around the globe to lean against any market concerns around rising debt levels and to keep interest rates low for now. Yet if the narrative on high debt levels, combined with rising inflation, were to change, it could eventually undermine the markets' faith in the low rate regime with implications across asset classes.

In the Fund, we maintain a pro-risk stance and we hold select exposure to emerging markets, investment grade and high yield bonds, and securitised assets, retaining our bias to a robust and diverse portfolio through holding income-generating assets in a risk-aware manner.

Finally, we have been continuing to reduce our exposure to US duration as we believe that valuations are still less attractive at current yield levels despite the recent back-up. We continue to believe that markets may be underestimating the probability of an earlier-than-expected taper, while the stronger economic growth outlook, and the amount of further fiscal support expected to come through with a Democratic led White House, mean that we still expect US Treasury yields to move modestly higher from here.

We prefer to hold duration in other parts of the world and we have shifted some of our US duration into some European countries – particularly in Italy and Spain, as ramped-up economic policy responses from the ECB should continue to support those countries – and into some higher quality emerging markets countries such as China where we think monetary policy will remain supportive despite the strong rebound in economic activity.

## About the Fund

The BlackRock Fixed Income Global Opportunities Fund (Aust) is a flexible, core bond alternative. It could appeal to investors looking to:

- enhance return potential from their fixed income allocation without taking on too much risk;
- diversify their bond portfolios away from traditional fixed income assets; and
- counter the risk to performance that a rising interest rate environment presents over the medium term.

The BlackRock Fixed Income Global Opportunities Fund (Aust) does not focus on just one area of global bond markets. It is a result of collaboration between portfolio managers within the BlackRock group and over 150 investment specialists globally who cover corporate, sovereign, municipal and structured bonds.

### Fund Details

Blackrock Fixed Income Global Opportunities Fund (Aust)	
APIR	BLK0003AU
Buy/Sell Spread	N/A
Management Fee (Class D Units)*	0.70% p.a.
Strategy AUM	\$49.9m
Fund AUM	92 mil
Liquidity	Daily
Minimum Initial Investment (Class D Units)^	\$50,000

\* The current default management fee for Class E units in the BlackRock Fixed Income Global Opportunities Fund (Aust) is 0.50% p.a. Pursuant to ASIC Class Order relief, BlackRock will individually negotiate fees with "wholesale clients" or "sophisticated" or "professional" investors (as defined in the Corporations Act).

^ The minimum initial investment for Class E Units in the BlackRock Fixed Income Global Opportunities Fund (Aust) is \$500,000.

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