

BLACKROCK GLOBAL ALLOCATION FUND (AUST)

BLACKROCK®

FUND UPDATE

30 November 2022

Investment Performance (%)

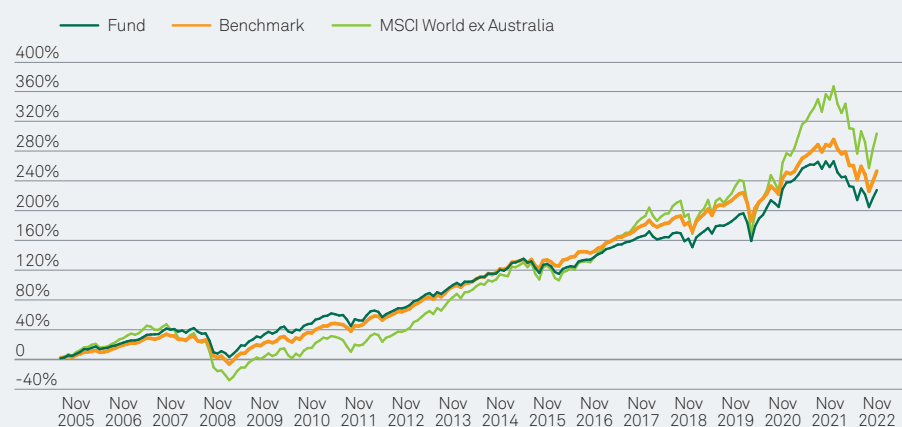
		1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
Return	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	3.44	1.86	-10.54	-8.60	4.17	4.16	7.07
	Internal Benchmark	4.13	1.36	-10.73	-8.66	3.51	4.73	7.53
	MSCI World ex Australia Hedged in AUD (For comparative purposes)	5.43	2.97	-13.57	-10.14	6.59	7.01	-
Risk [^]	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	-	-	-	-	12.38	10.59	9.15
	MSCI World ex Australia Hedged in AUD* (For comparative purposes)	-	-	-	-	19.43	17.09	14.77

[^] 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 2022



Current Portfolio Strategy

- ▶ Global stocks rose briskly in November, tacking on to their sizeable gains from October, as investors began to anticipate that the deceleration witnessed in recent U.S. economic data had the potential to lead to less hawkish monetary policy in 2023. Global stocks, as measured by the MSCI World Index, advanced +7.0% in November. Investor anticipation of a less aggressive Fed, coupled with sporadic indications that China's government was prepared to loosen its "zero tolerance" policy toward COVID-19, combined to weaken the U.S. dollar and provided an extra boost to international equity markets. Performance was led by more cyclically sensitive sectors in November, including Materials, Industrials, and Financials, while several of the market's more "defensive" sectors, including Healthcare and Telecom, lagged the broader indexes. Fixed income investors finally enjoyed a reprieve in November, after enduring what

Monthly key portfolio themes

- ▶ 57% equities, 34% fixed income, 9% cash, 0% Precious Metal.

Regions:

Overweight: US

Underweight: Japan, Australia and Europe

Sectors:

Overweight: Energy, Healthcare, Consumer Discretionary and Materials

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

- ▶ Given the current environment, we are maintaining exposure to cash equivalents, as we believe cash to be an efficient means to hedge equity risk. Considering the current elevated level of market volatility, our cash balances also act as a source of funding as we look to opportunistically deploy capital. This increase in cash over the month was driven by the evolution of positioning in US rates as described above.

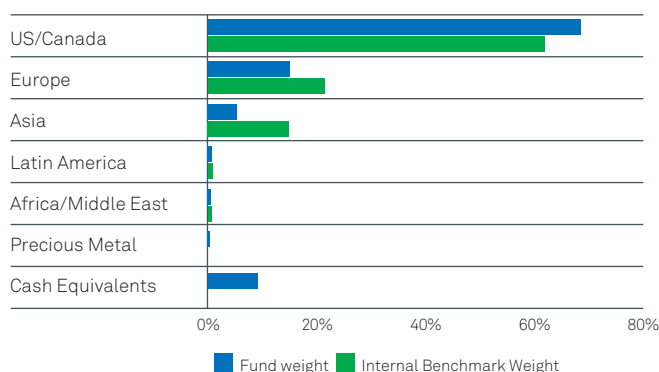
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- Market Insights & Commentary
- Fund Performance
- Unit Prices

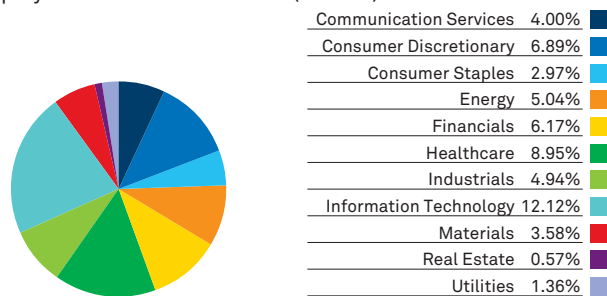
has been one of the worst calendar years for bonds in nearly a half-century. Lower-than-expected inflation, coupled with a less restrictive tone from the Fed supported most fixed income classes to enjoy their biggest monthly returns of 2022. Ironically, despite the favourable “risk on” market tone, longer-dated U.S. Treasuries and municipal bonds outpaced higher risk portions of the bond market, including U.S. high yield and the Bloomberg U.S. Aggregate Bond Index. Meanwhile, overseas, the combination of lower-than-expected inflation and a falling dollar, combined to propel the returns of non-U.S. developed and emerging market bonds to the top of the asset class.

- ▶ Despite our view that equity markets are likely to remain in a volatile, but range bound, environment we have narrowed our equity underweight to get the fund’s overall beta closer to neutral. This change reflects the recognition that equity valuations are lower relative to the start of the year, coupled with an expectation that the pace of interest rate increases will soon begin to slow. While we do expect interest rate volatility to continue to fall – which may lower the likelihood of further P/E multiple contraction across stocks – we remain mindful that consensus S&P 500 earnings expectations for 2023 remain too optimistic, given our view that economic growth is likely to continue to decelerate. Accordingly, we remain underweight equities (albeit less so), with an emphasis on quality and pricing power in our core holdings. In this environment, we are leaning into idiosyncratic risks, notably companies we believe are more likely to deliver consistent cash flows during a period of decelerating economic growth. Inflation remains a critical factor to monitor. Various data reports released during November indicated that U.S. manufacturing continued to slow, while existing home sales declined significantly. Importantly, U.S. October core CPI – although still accelerating – came in below consensus expectations. Hope for a less aggressive Fed was subsequently supported by comments made by Chairman Powell, where he indicated that the Fed may begin moderating the pace of its rate increases as soon as its next FOMC meeting in mid-December. Within fixed income, we continue to emphasize carry across our positioning. Despite a slowing economic backdrop, we continue to find high quality credit attractive as we do not anticipate a significant increase in default risk as most corporate balance sheets remain strong in our opinion. Over the month, we also added to high quality agency RMBS as an additional source of carry. While we continue to maintain a balance in cash and an overweight to the USD to help buffer portfolio volatility, our positioning across hedges evolved over the month as we added to high quality carry.
- ▶ Total equity exposure continued to drift up, driven largely by market movement, as equities posted another strong month of performance. In addition, we added some broader US index exposure via call options to build upside convexity into the portfolio as we head into year-end, which has historically been a stronger period for equities. Our core positioning remained fairly stable, as we believe equities will remain volatile, but range bound in the coming months.
- ▶ Within sector positioning, we have a combination of “stable” growth, including industries such as software and healthcare services, paired with overweight positions in select natural resource companies, which in our view can act as an inflation hedge. We remain cautious on both deep value and early growth companies that tend to be more volatile.
- ▶ Energy remains a tactical overweight in the fund, with exposure tilted towards select oil and gas transportation and refining companies that we believe to maintain pricing power in the current environment. Over the month, we added to select positions and converted some of our exposure into option structures that provided the potential for additional upside exposure.
- ▶ Within consumer discretionary, we trimmed exposure to housing related names that we believe to remain susceptible to a weakening housing market amidst higher mortgage rates.
- ▶ Within derivatives, we continue to look for opportunities to build convexity in the portfolio via options but are mindful of the premium required to gain access to equity volatility levels (though it has come down relative to recent months). In the current higher rate environment, we are leaning high quality carry as an alternative source for convexity.

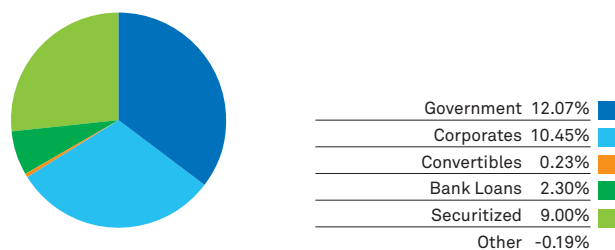
Regional Exposure as of month end



Equity Sectors as of month end (56.59%)



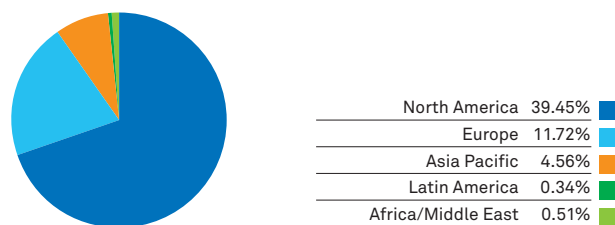
Fixed Income Sectors as of month end (33.85%)



Cash as of month end (9.18%)

Precious Metals (0.38%)

Equity Regional Exposures as of month end



- ▶ Total portfolio duration was +1.6 years at the end of November (vs. benchmark duration of 2.5 years). We are neutral on US duration, with the underweight largely driven by an underweight in European and Japanese rates.
- ▶ While our concentration in US rates remains in the front end of the treasury curve (notably 2-year) where we believe that most of the rise in rates at that point of the curve has likely occurred, our positioning along the curve evolved over the month as we modestly added to the longer-end of the curve (10-year). As rate volatility comes down, we believe there is greater potential for longer-dated treasuries to resume their role as a hedge to equities. This rotation led to a reduction in the overall exposure to US rates over the month as the team intended this change to be duration neutral.
- ▶ We favour spread assets with exposure in a diversified basket of credit and securitized debt. The aggregate exposure of the portfolio's off-benchmark fixed income asset classes represented ~16% of AUM and is a key differentiator vs. traditional "60/40" portfolios.
- ▶ The team continued to emphasize credit exposure (~10%). With the significant back-up in yields YTD and spreads relative to Treasuries now above average, the team believes that credit is an attractive source of carry for the portfolio. The team has focused exposure on short-duration high quality companies that would likely be less susceptible to default in the case of a mild recession.
- ▶ We added to agency residential mortgage-backed securities (RMBS) as an additional source of carry on the expectation that the pace of rate increases is likely to decline from here. Historically, mortgages tend to underperform when rate volatility is high (greater default risk in a rising rate environment and prepayment risk in falling rate environment). As rate volatility stabilizes, we are finding more opportunities in this space.
- ▶ We have minimal exposure to gold-related securities (0.2% of assets). 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.
- ▶ While we maintain an overweight to the U.S. Dollar (64% vs 60% for benchmark), this overweight positioning has been reduced by ~50% in recent months as we believe the U.S. is further along in its tightening cycle than other countries. As we have reduced exposure to the USD, we have looked for opportunities to decrease our underweight to the euro and JPY and added to select EM currencies, notably the Mexican peso, where we believe central banks may continue to raise rates, thereby decreasing the interest differential with the USD.

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

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