BLACKROCK GLOBAL ALLOCATION FUND (AUST)

BLACKROCK®

FUND UPDATE **31 December 2022**

Investment Performance (%)

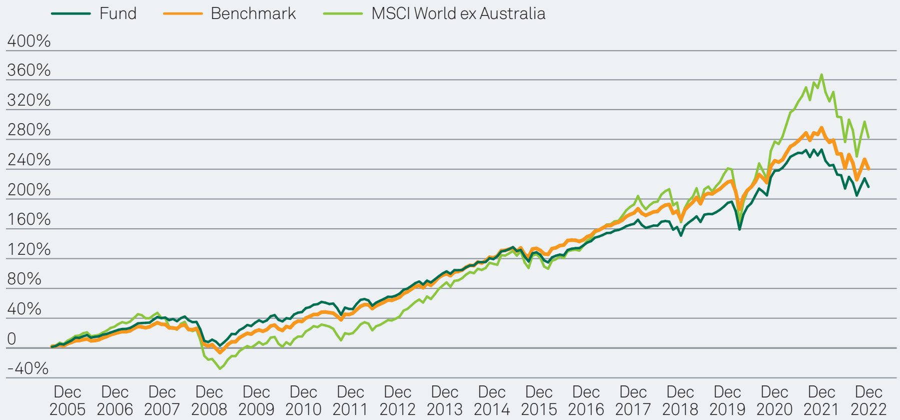
		1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
Return	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	-3.50	3.80	-13.67	-13.67	2.36	3.32	6.81
	Internal Benchmark	-3.58	4.49	-13.92	-13.92	1.81	3.82	7.27
	MSCI World ex Australia Hedged in AUD (For comparative purposes)	-5.19	7.17	-18.06	-18.06	3.92	5.64	-
Risk^	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	-	-	-	-	12.56	10.73	9.18
	MSCI World ex Australia Hedged in AUD* (For comparative purposes)	-	-	-	-	19.70	17.29	14.80

^ 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 2022



Current Portfolio Strategy

- Global stocks declined in December, ending 2022 on a down note and putting to rest the worst calendar year for equities since 2008's Global Financial Crisis. Global bond performance for the month was mixed. Shorter-dated bond prices were mostly stable during December, but longer-maturity bond prices were negatively impacted by data indicating continued strength in the U.S. labor market. Mid-month, the U.S. Federal Reserve approved an interest rate increase of +0.50% and signalled its intent to lift rates through the spring to combat inflation. Although the Fed's decision marked a deceleration from four consecutive increases of +0.75% beginning back in mid-June, investor concerns about the potential negative impacts that addition rate increases could have on the economy - and corporate profits – weighed on equity performance. In addition, the Bank of Japan's decision to alter its policy of "yield curve control"

Monthly key portfolio themes

- 53% equities, 30% fixed income, 16% cash, 0% Precious Metal.
- **Regions:**
  Overweight: --
  Underweight: Japan, Australia and US
  Sectors:
  Overweight: Energy, Communication Services, Healthcare and Consumer Discretionary
  Underweight: Financials, Industrials, Consumer Staples, Information Technology, REITs, and Utilities
- Our cash positioning decreased over the month as we deployed capital within fixed income positioning. While lower, we are maintaining a balance to cash equivalents, as we believe cash to be efficient means to hedge equity risk.

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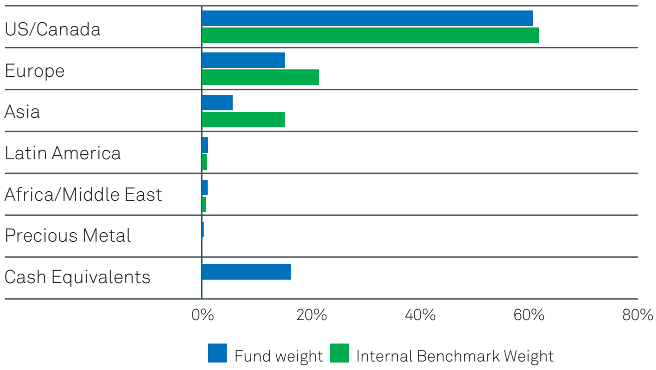
- Fund Performance
- Unit Prices

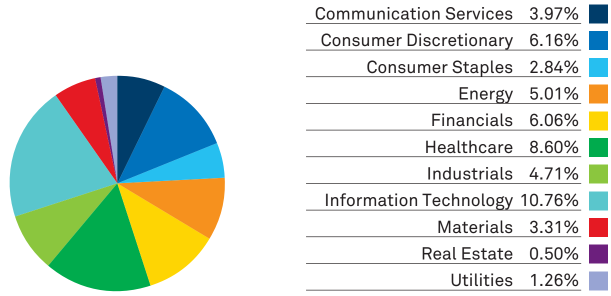
(YCC) also weighed on global risk assets, as the consequences of the shift encouraged Japanese investors to sell their foreign securities holdings (including U.S. Treasuries) and repatriate capital back home, further draining liquidity from global capital markets.

- Looking ahead, we continue to make a case that despite the challenges faced in 2022, people underestimate how adaptive, innovative, and flexible the US economy can be. As a result, we believe that the U.S. will likely avoid a material economic contraction in 2023 (and may avoid a recession altogether), as the strength of the U.S. labor market should provide structural support for overall consumption. Across asset classes, within the Global Allocation Fund, we maintain a neutral view on equities in the short-term as we except U.S. Federal Reserve (Fed) policy to remain restrictive in the coming months. In this environment, we remain patient and are leaning into idiosyncratic risks with an emphasis on quality and pricing power in our core holdings, notably companies we believe are more likely to deliver consistent cash flows during a period of decelerating economic growth. Our preferred exposures reflect a bias in favor of quality, GARP (growth at a reasonable price) and select areas of resources where we anticipate supply to remain constrained for the foreseeable future. We are much more constructive on fixed income as we believe the historic back-up in yields YTD represents a generational inflection point and continue to look for ways to build carry into the portfolio, notably via high quality investment grade credit and agency mortgages. While we believe the bulk of the U.S. interest rate hikes have occurred, we see continued tightening from central banks (albeit at smaller increments), and thus maintain a partial underweight to duration (notably via non-US rates). In-line with the fund's risk aware mandate, we look to balance exposure to risk assets with a diversified allocation to portfolio hedges, with a reliance on high quality carry via income yielding assets within the portfolio coupled with a balance in cash, the U.S. dollar, and derivatives.
- Total equity exposure decreased, driven largely by market movement, as equities were down amidst investor concern that future rate increases could have corporate earnings and risk assets. Our core positioning remained 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 providers, paired with overweight positions in select natural resource companies within energy and materials, 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 was the Fund's largest overweight (as was the case for most of 2022), with exposure tilted towards oil and gas companies that we believe to maintain pricing power in the current environment. In December we continued to build quality across the portfolio by adding to select high quality refining and oilfield services companies, which are less directly exposed to oil and natural gas prices, have strong balance sheets and, like many energy producers, have recently allocated more cash flow generation to shareholder return.
- Consumer discretionary remains a modest overweight in the portfolio with an emphasis on high-end luxury goods producers who have a greater ability to pass through higher prices given higher sales and margin structures as well as affluent consumers being less directly impacted by higher inflation costs. In December we added to select European luxury retailers on the view that a historically strong US dollar, coupled with a China reopening, could support sales heading into 2023.
- 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). Within the fixed income, we believe the current implied volatility in the market is too high and will likely come down in coming as the Fed gets closer to a pause in the tightening cycle and sold swaption strangle strategies as a way generate premium. In the current higher rate environment, we are leaning towards high quality carry as an alternative source for convexity.

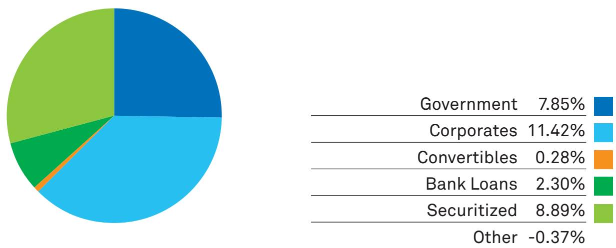
Regional Exposure as of month end



Equity Sectors as of month end (53.19%)



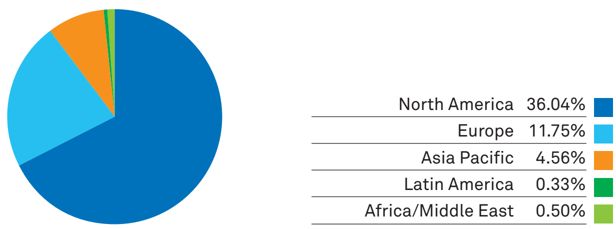
Fixed Income Sectors as of month end (30.37%)



Cash as of month end (16.24%)

Precious Metals (0.21%)

Equity Regional Exposures as of month end



- Total portfolio duration remained at 1.6 years vs. benchmark duration of 2.4 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 in recent months as we added to the 10-year point to a modest overweight on the view that as rate volatility recedes there is greater potential for longer-dates treasuries to act as an equity hedge. In December, we modestly reduced underweight at the 3year point of the curve as the team added carry across the portfolio.
- We favor 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 ~20% of AUM and is a key differentiator vs. traditional "60/40" portfolios.
- The team continued to emphasize credit exposure (~11%). 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 maintain ~5% exposure 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.
- We have neutralized our overweight exposure in the U.S. Dollar by roughly ~600 bps in recent months (62% vs. 60% benchmark), 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 decreased underweights 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	440 mil
Management Fee	0.20% p.a.
Performance Fee	12.50%

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