BLACKROCK GLOBAL ALLOCATION FUND (AUST)

BLACKROCK®

FUND UPDATE **30 September 2023**

Investment Performance (%)

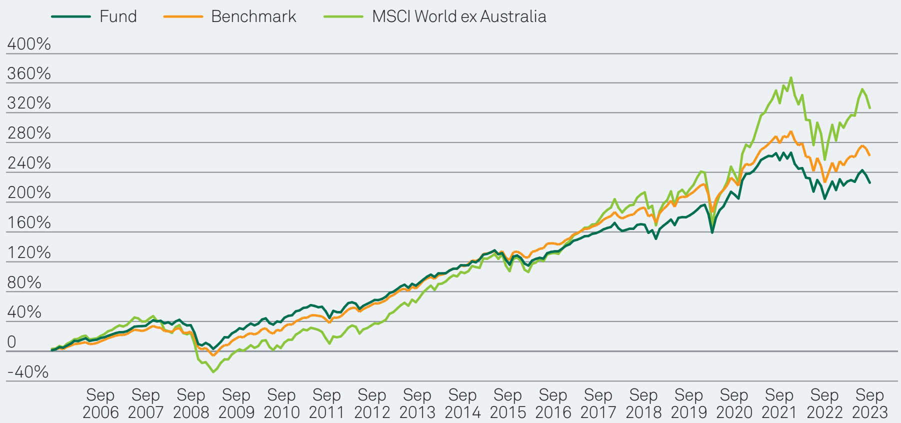
		1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
Return	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	-2.99	-3.40	3.10	7.02	1.71	3.72	6.70
	Internal Benchmark	-2.68	-2.28	6.28	11.05	3.33	4.27	7.32
	MSCI World ex Australia Hedged in AUD (For comparative purposes)	-3.77	-2.87	11.40	19.39	8.11	6.50	-
Risk^	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)					10.53	11.07	9.15
	MSCI World ex Australia Hedged in AUD* (For comparative purposes)					16.46	17.58	14.67

^ 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 September 2023



Current Portfolio Strategy

- Global markets declined in September, as Fed officials indicated that they intend to keep interest rates higher for longer during 2024 than they had anticipated earlier this year. Global equities, as measured by the MSCI World Index, fell -4.3% in September. For the second consecutive month, U.S. small-cap stocks were among the worst performing segments of the global equity markets, as rising rates particularly pummelled the prospects of small-cap companies with high growth potential but low levels of current cash flow. From a sector perspective, energy was the best performing segment of the global stock market on the back of surprisingly strong oil prices and was the only major sector within the MSCI World Index that posted positive returns during September's swoon. Global bonds generally declined in September, with yields on the 2year U.S. Treasury reaching 5.17% mid-month, their highest level since June 2006. The prospects of

Monthly key portfolio themes

- 60% equities, 35% fixed income, 4% cash, 1% Precious Metal.
- **Regions:**
  Overweight: U.S and Europe

  Underweight: Asia ex- Japan

  Sectors:
  Overweight: Healthcare, Industrials, Consumer Discretionary,Energy

  Underweight: Financials, Real Estate, Materials, Consumer Staples,
- Cash positioning remained broadly in line with last month. Exposure within cash is primarily held via a combination of U.S. treasury bills and select commercial paper in high quality issuers, both of which offer competitive yields as additional carry in the portfolio.

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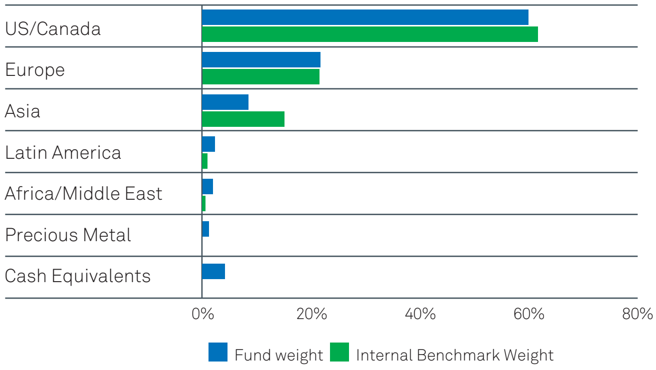
- Fund Performance
- Unit Prices

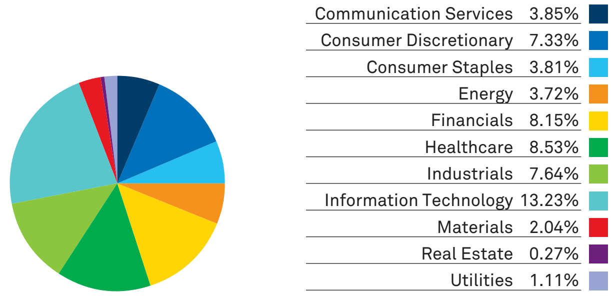
a shallower easing cycle at the front-end of the curve sent yields at the long-end significantly higher, causing prices of long-term Treasuries to fall sharply. International sovereigns were weaker than their US counterparts, given the additional headwind of a stronger U.S. dollar. In relative terms, prices of U.S. high yield bonds remained resilient, due to more modest exposure to duration at the index level the Bloomberg U.S. Aggregate Bond Index and the underlying resiliency of U.S. economic activity.

- While showing signs of deceleration, the U.S. economy remains adaptive and will likely avoid a "hard" economic landing or protracted recession in 2023. This is mainly driven by the economy being more service-oriented today than in prior decades, making it far less sensitive to interest rate changes. Our view is that inflation, employment growth, and wage pressures will continue to slow, and combined, this will be enough data to allow the Federal Reserve to end their hiking campaign, with a possibility of one more increase. That said, we believe the Fed is not going to consider cutting rates until they see durable declines in inflation. The team estimates that U.S. nominal GDP growth for 2023 has the potential to be ~4.5%, which could support U.S. corporate earnings. We believe that a stronger earnings outlook, coupled with decelerating inflation data and elevated corporate buybacks, could be a supportive environment for stocks. That said, the team is cognizant that economic growth is decelerating given the cumulative effect of tighter monetary policy, shrinking credit availability, and slowing employment conditions. The growth paradigm outside of the U.S., remains challenged particularly in China, given a muted recovery post COVID, and Europe where central banks have a hard balance between persistent inflation and slowing growth. In this environment, our equity weighting declined with markets, bringing equity positioning to a slight underweight, with an emphasis on stable growth and quality. Over the month, we used the market weakness to add back to select sectors. Despite the recent increase in U.S. rates, we maintain exposure at the front and belly of the curve, on the view that U.S. inflation will follow a prolonged – but choppy – deceleration, the potential for the long-end to grind higher. The bulk of our fixed income exposure is in a diversified basket of corporate credit, securitized assets, and emerging market sovereigns. In-line with the fund's risk aware mandate, we hold exposure to an array of portfolio hedges (in addition to duration), including derivatives, gold-related securities, cash and FX positioning.
- Portfolio Manager, Russ Koesterich, has spoken as to why a moderation in economic growth may warrant an increased allocation to lower volatility stocks in portfolios, with a slight twist. One does not necessarily need to only look to traditional defensive sectors such as consumer staples or utilities for this exposure, but rather a focus on companies with a proven track record of stable revenue and margins.
- Positioning overweights are concentrated in "stable growth" or "quality" companies that can generate earnings consistency and are aligned with long-term structural trends. This would include software and automation, positioned to grow from R&D, digital infrastructure, and innovation, as well as managed care and medical devices that benefit from aging demographics. In additional to automation companies, we also maintain industrials exposure via as defense companies that are attractively valued and in demand in a deglobalizing world.
- Amidst heightened interest rate volatility, the information technology sector was one of the weakest over the month. While cognizant of the impact on higher rates, we used the market weakness as an opportunity to re-underwrite positioning and added to select technology companies, notably high-quality names who have generated consistent cash flows in varying economic cycles.
- Given a more positive outlook for economic growth due to stronger domestic consumption, rising wages as well as increasingly shareholder friendly management practices in Japan, we increased exposure to select auto and capital goods companies positioned to benefit from consumption trends and governance improvements.
- Consistent with the team's more cautious near-term outlook, we used the low volatility observed across the options market to opportunistically add stock replacement trades whereby similar exposure was created via long call options while trimming the stock exposure on the same company, to maintain similar upside with less downside risk should prices decline.

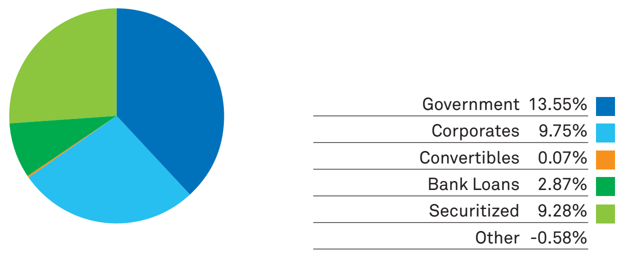
Regional Exposure as of month end



Equity Sectors as of month end (59.69%)



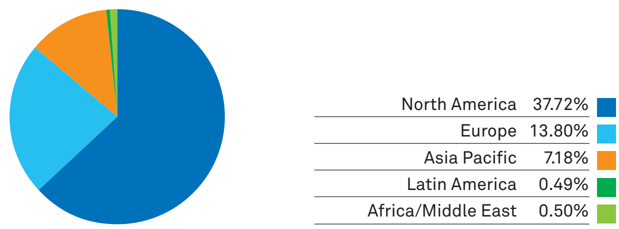
Fixed Income Sectors as of month end (34.93%)



Cash as of month end (4.19%)

Precious Metals (1.19%)

Equity Regional Exposures as of month end



- Total portfolio duration was 2.1 years (down slightly from 2.2 years as of August month-end), vs. benchmark duration of 2.3 years. Despite a strategic view that duration can once again be employed as a partial hedge to equity, we are mindful that the US economy has proven very resilient to higher rates thus far, which suggests that we may be in a regime of higher equilibrium rates for the time-being and back-end rates could drift higher.
- The bulk of our duration exposure remains in U.S. rates, although relative to benchmark, the fund is underweight, with positioning focused on the front and belly of the curve, at the expense of long-dated rates. In September, we continued to gradually extend our positioning out to the 3-5-year part of the curve on the view that when the Fed does begin to transition away from tightening monetary policy, this is the part of the curve that would stand to benefit as the curve steepens. We remain cautious on the long end of the curve due to short-term supply concerns that could push rates higher.
- Outside of the U.S., the fund is overweight duration in Europe and Latin America (notably Mexico and Brazil), while underweight Japan. Within Europe, sovereign exposure is primarily held in Germany and Spain. In addition to the incremental carry when hedged back to the U.S. dollar, European curves are less inverted as compared to the US, which suggest less potential for rates to rise there. Furthermore, with hiking cycles further along in EM and DM hiking cycles maturing globally, we expect that EM duration can outperform if global growth were to slow further.
- We continue to find value in 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 just under 10% of AUM and is a key differentiator vs. traditional "60/40" portfolios.
- Given the team's preference for quality, we added exposure to agency mortgages as an additional source of carry following weaker performance earlier in the quarter. We believe these bonds have the potential to outperform as rate volatility subsides, lessening the likelihood of meaningful prepayment or duration risk.
- Modest exposure to gold-related securities, primarily through call options on gold ETFs as an additional hedge to elevated equity volatility.
- In recent months, we have worked to neutralize FX positioning. As of month-end, the Fund had a slight underweight in the U.S. dollar (59% vs. 60% benchmark) with overweights spread across the euro, Swiss franc, and Japanese yen, and modest underweights in the Chinese yuan and Hong Kong dollar. That said, in the current environment of climbing U.S. real and nominal rates, we recognize that the U.S. dollar could serve as a tactical hedge and looked for opportunities to modestly increase exposure via a basket approach over the month.

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

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