BLACKROCK GLOBAL ALLOCATION FUND (AUST)

BLACKROCK®

FUND UPDATE **31 October 2022**

Investment Performance (%)

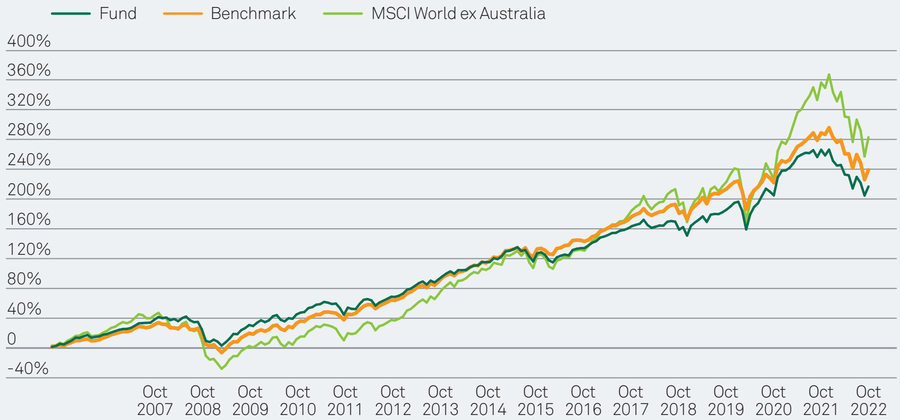
		1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
Return	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	3.98	-3.91	-13.52	-13.48	3.52	3.60	6.89
	Internal Benchmark	4.06	-5.64	-14.27	-12.75	2.66	4.10	7.31
	MSCI World ex Australia Hedged in AUD (For comparative purposes)	7.22	-5.83	-18.03	-16.11	5.82	6.23	-
Risk^	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	-	-	-	-	12.27	10.50	9.14
	MSCI World ex Australia Hedged in AUD* (For comparative purposes)	-	-	-	-	19.29	16.96	14.76

^ 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 October 2022



Current Portfolio Strategy

- Most global stock markets posted an impressive recovery during October, following a very turbulent descent in September. The most significant factor that aided stocks over the course of the month - particularly in the developed markets - was the resiliency of corporate earnings. Global stocks, as measured by the MSCI World Index, advanced +7.2% in October. U.S. small-cap stocks were October's best performers, as the Russell 2000 Index notched a gain of +11.0%. Along with U.S. stocks, European equities (as represented by the MSCI Europe Index) also posted strong gains, despite elevated inflation data and a challenging growth outlook. Emerging market equities continued to struggle, however. Bonds fell during October, as investors received almost no evidence indicating that elevated levels of inflation are about to recede, or that the U.S. Federal Reserve is poised to pivot from its restrictive monetary policy

Monthly key portfolio themes

- 53% equities, 31% fixed income, 15% cash, 0% Precious Metal.
- **Regions:**

  Overweight: US

  Underweight: Japan, Australia and Europe

  Sectors:

  Overweight: Energy, Consumer Discretionary, Materials, and Healthcare

  Underweight: Financials, Industrials, Consumer Staples, REITs, Information Technology, and Utilities
- Given the current environment, we are maintaining 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 (notably longer dated). 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. The decrease in cash in October was largely a reflection of the positive movement across equity markets.

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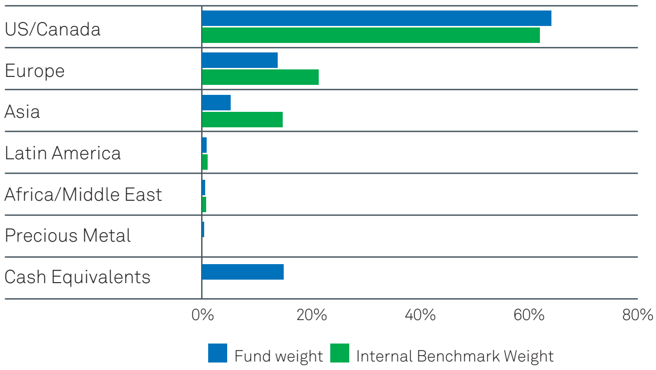
- Fund Performance
- Unit Prices

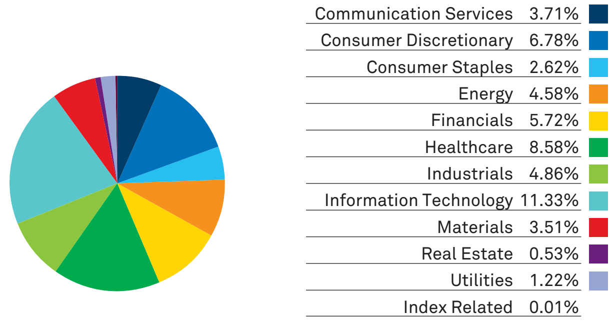
stance. U.S. Treasuries fell along the entirety of the curve, particularly 10-year maturities. U.S credit had a mixed month, as lower quality high yield bonds (as measured by the BofA/ML U.S. High Yield Index) rallied along with stocks on profit resiliency, but investment grade bonds (as measured by Bloomberg U.S. Aggregate Bond Index) - which are more duration sensitive than high yield - modestly declined. Non-U.S. sovereign bonds modestly rallied as the U.S. dollar weakened from recent highs.

- Despite recent profit resiliency, our outlook for stocks remains tepid against a backdrop of tightening financial conditions. While equity valuations have compressed considerably since the start of the year, we remain cautious as prices (relative to forward earnings expectations) have not fallen to the levels we experienced either at the start of the pandemic (Q1'20) nor where they traded the last time the U.S. Federal Reserve was increasing the Fed funds rate (Q4'18). We believe the combination of lower (but not rock bottom) valuations, coupled with tightening financial conditions and an ambiguous profit outlook from management teams, implies that equities are likely to remain in a choppy - but range-bound - environment for the short-term. Inflation remains a critical factor that could serve as a catalyst to a change in outlook. While portions of the goods side of the U.S. economy are poised to experience outright price declines, we believe that inflation is likely to remain sticky on the services side of the economy (particularly wages), even despite the rapid rise in real interest rates. In this environment, we are limiting broad asset class exposure risk and leaning into idiosyncratic risks, notably companies we believe are more likely to deliver consistent cash flows during a period of decelerating economic growth. Within equities, we remain underweight, with an emphasis on quality and pricing power in our core holdings. Within fixed income, we continued to moderately narrow some of our duration underweight via short-term US treasuries, as we believe that this portion of the curve has almost fully priced in any additional increases in the Fed funds rate. Despite a slowing economic backdrop, we are finding opportunities in credit as we do not anticipate a significant increase in default risk as most corporate balance sheets remain strong in our opinion. To help buffer volatility, we maintain a larger balance in cash and an overweight to the US dollar.
- Total equity exposure increased with market movement over the month as equities poised an impressive rally following a weak September. 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 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 as we believe stocks will remain volatile, but range-bound, in the upcoming months.
- Within healthcare, we modestly added exposure to select pharmaceutical and healthcare providers that we believe are positioned to demonstrate resilience in earnings in periods of market uncertainty.
- Exposure to information technology increased, primarily driven by management of broad index futures where we modestly increased US exposure (via short covering) alongside the market appreciation. Within technology, our core positioning continues to emphasize software and an underweight hardware and semis.
- Energy remains an overweight in the fund, with exposure tilted towards select oil and gas transportation and refining companies. This is a tactical play on the sector where we believe that the lack of corporate investment in energy infrastructure (in recent years) amidst supply constraints brought on by tensions in eastern Europe should provide support for energy prices near-term.
- Within derivatives, we continue to look for opportunities to build convexity in the portfolio via options however volatility has become more expensive, making these structures slightly less attractive. In the current higher rate environment, we are leaning on short-dated IG exposure to provide carry as an alternative source for convexity.

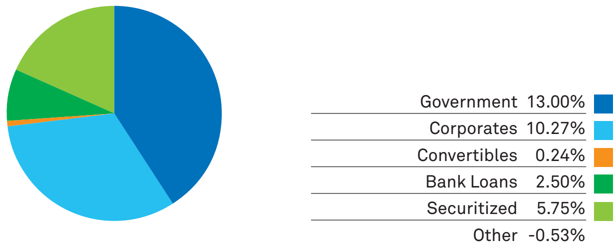
Regional Exposure as of month end



Equity Sectors as of month end (53.44%)



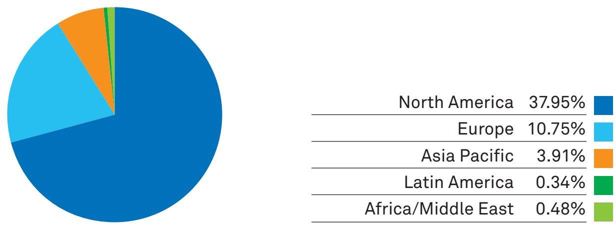
Fixed Income Sectors as of month end (31.23%)



Cash as of month end (14.98%)

Precious Metals (0.36%)

Equity Regional Exposures as of month end



- Total portfolio duration was +1.6 years at the end of October (vs. benchmark duration of 2.5 years), an increase from +1.3 years as of September month-end. We are neutral on US duration, with the underweight largely driven by an underweight in European and Japanese rates.
- While we think rates have room to move modestly higher across the U.S. Treasury curve, we believe that most of the rise in U.S. interest rates is likely behind us, notably at the front-end of the curve. Over the month, we added exposure in on the US rates curve (primarily in 2-year rates) as we believe current rates have priced in more of the Fed policy than the longer end of the curve.
- We favour 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 ~13% 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 once again 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 exposure to securitized debt (~2%) 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 in a rising rate environment.
- 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.
- Maintain a meaningful overweight to the U.S. Dollar (67% vs 60% for benchmark), with notable underweights to the euro (11% vs. 13% for benchmark), Chinese yuan (-0.3% vs. 0.8% for benchmark), and the Japanese Yen (7% vs. 8%). This positioning has been beneficial YTD as the USD remains near its 20-year high against both the euro and yen. That said, with the significant appreciation thus far in 2022, the team has begun to pare back its overweight as we believe the pace of USD appreciation may begin to show signs of slowing.

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

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