



# BlackRock Fixed Income Global Opportunities Fund (S)

This report has been prepared for financial advisers only



**Outstanding**

February 2024

# INTRODUCTION

## Key Principles

SQM Research considers (but is not restricted to) the following key review elements within its assessment:

1. Business profile - product strategies and future direction
2. Marketing strategies and capabilities, market access
3. Executive Management / Oversight of the investment management firm
4. Corporate Governance / fund compliance / risk management
5. Investment team and investment process
6. Fund performance, investment style, market conditions, investment market outlook
7. Recent material portfolio changes
8. Investment liquidity
9. Investment risks
10. Fund/Trust fees and expenses

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## Star Rating\*

Investment products are awarded a star rating out of a possible five stars and placed on the following website:  
[www.sqmresearch.com.au](http://www.sqmresearch.com.au)

Star Rating*	Description	Definition	
4½ stars and above	Outstanding	<b>Highly suitable for inclusion on APLs</b> <i>SQM Research believes the Fund has considerable potential to outperform over the medium-to-long term. Past returns have typically been quite strong. Product disclosure statement (PDS) compliance processes are of a high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.</i>	High Investment grade
4¼ stars	Superior	<b>Suitable for inclusion on most APLs</b> <i>SQM Research considers the Fund has substantial potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.</i>	High Investment grade
4 stars	Superior	<b>Suitable for inclusion on most APLs</b> <i>In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no corporate governance concerns. Management is of a high calibre.</i>	High Investment grade
3¾ stars	Favourable	<b>Consider for APL inclusion</b> <i>SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality. There are no corporate governance concerns, or they are of a minor nature.</i>	Approved
3½ stars	Acceptable	<b>Consider for APL inclusion</b> <i>In SQM Research's view, the potential for future outperformance in the medium-to-long term is somewhat uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and capable. SQM Research has identified weaknesses which need addressing in order to improve confidence in the Manager.</i>	Low Investment grade
3¼ stars	Caution Required	<b>Not suitable for most APLs</b> <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potential substandard. There are possible corporate governance concerns. Management quality is not of investment-grade standard.</i>	Unapproved
3 stars	Strong Caution Required	<b>Not suitable for most APLs</b> <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There may be some material corporate governance concerns. SQM Research has a number of concerns regarding management.</i>	Unapproved
Below 3 stars	Avoid or redeem	<b>Not suitable for most APL inclusion</b>	Unapproved

Event-driven Rating	Definition
<b>Hold</b>	<i>Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.</i>
<b>Withdrawn</b>	<i>Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.</i>

\* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

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**Report Date: 29 February 2024**

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**SQM Rating** ★★★★★

*Outstanding. Highly suitable for inclusion on APLs.*

<b>Fund Description</b>	
Fund Name	BlackRock Fixed Income Global Opportunities Fund (Aust)
APIR code	BLK5060AU
Asset Class	Fixed Income
<b>Management and Service Providers</b>	
Parent Company of Fund Manager	BlackRock Investment Management (Australia) Limited
Fund Manager	BlackRock Investment Management (Australia) Limited
Responsible Entity	BlackRock Investment Management (Australia) Limited
<b>Fund Information</b>	
Fund Inception Date	31-Jan-07
Fund Size \$m	\$11m (Strategy global total is \$66 billion)
Return Objective (as per PDS)	None stated
Internal Return Objective	Non stated
Risk Level (as per PDS)	None stated
Internal Risk Objective	Typically volatility of returns of 2% p.a. 4% p.a.
Benchmark	No benchmark designated by the Fund Manager but the Reference Index used by SQM Research for comparison is the Bloomberg Global Aggregate Total Return Index in AUD
Number of stocks/positions	2,888
Fund Leverage	Expected gross notional leverage 500%
<b>Investor Information</b>	
Redemption Policy	Daily
Pricing Frequency	Daily
Distribution Frequency	Annually
Investment Horizon (as per PDS)	5 years
Currency Hedging Policy	Passively Hedged. This Australian fund feeds into the Luxembourg-domiciled USD feeder fund. Currency exposure between the two is passively hedged through holding AUD-hedged shares. However, currency exposures between the USD base currency of the feeder fund and its securities denominated in various currencies are actively managed.
<b>Investment Amounts</b>	
Minimum Application	\$0
Minimum Withdrawal	\$0
Minimum Investment Balance	\$0
<b>Fees</b>	
Management Fee % p.a. of NAV	0.67%
Frequency of Fee Accrual	annually
GST and impact of RITC	Included
TCR - % of NAV	0.67% p.a
Expense Recovery	The Manager is entitled to be reimbursed for certain expenses in managing and administering the Fund. This includes certain out-of-pocket expenses incurred during the day-to-day operations and other expenses that are incurred due to abnormal events.
Buy Spread	0.00%
Sell Spread	0.00%
<b>Performance Fee Details</b>	
Performance Fee Rate	Nil

## SUMMARY

### Fund Summary

#### Description

The **BlackRock Fixed Income Global Opportunities Fund (S) (the "Fund")** is an open-ended, unlisted registered managed investment scheme available to retail and wholesale investors in Australia. The Fund invests into the Luxembourg-domiciled USD feeder fund for the same strategy (Fixed Income Global Opportunities or the **FIGO Strategy**) that is managed by the Fund Manager which has:

- a broad, global diversified fixed-income strategy that seeks to maximise total return;
- less reliance than other fixed interest funds on duration to generate returns;
- an aim to achieve attractive returns regardless of the interest rate environment;
- a portfolio that invests at least 70% of its total assets in fixed-income transferable securities denominated in various currencies issued by governments, agencies, and companies worldwide, where the full spectrum of available securities, including non-investment grade, may be used;
- a flexible approach to managing currency exposure;
- an investment philosophy whereby a diversified approach "to generate a little bit of money a lot of times", coupled with broad sector and duration flexibility is considered critical to generating durable and attractive returns;

FIGO is the Fund Manager's flagship fixed-income strategy within Global Fixed Income. The strategy is managed by Rick Rieder (Chief Investment Officer of Global Fixed Income) together with two senior portfolio managers who are the Lead Portfolio Managers. They have access to the best ideas of the entire Fundamental Fixed Income platform based on:

- input and recommendations from over 200 fixed-income sector specialists who are looking for bottom-up security selection opportunities; and
- risk management processes developed by the Fund Manager.

The process employs both top-down macro analysis and bottom-up security and sector analysis.



The FIGO strategy aims to generate consistent, attractive, and diversified returns per unit of return volatility (risk-adjusted returns) in varied market environments while retaining the general risk profile of traditional fixed-income investments. The strategy is not managed relative to a benchmark, so portfolio managers have the flexibility to allocate and rotate across any sector in the fixed-income market, in search of sources of risk-adjusted return. No single trade or position dominates the return or risk profile of the strategy. This is in line with a philosophy of generating a little money a lot of times through a well-diversified portfolio.

### Fund Rating

The Fund has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
4.50 stars	Outstanding	Highly suitable for inclusion on APLs	High Investment Grade

### SQM Research's Review & Key Observations

#### About the Manager

BlackRock Investment Management (Australia) Limited is a subsidiary of BlackRock, Inc. a publicly traded investment management firm, with common stock listed on the New York Stock Exchange which provides a broad range of investment management and technology services to institutional and retail clients worldwide. As of 30 June 2023, BlackRock Inc. managed US\$9.4 trillion across equity, fixed income, alternatives, multi-asset, and cash management strategies for its clients. BlackRock has been profitable over the past ten years. The business is largely fee-based, thereby generating strong recurring cash flow from operations.

The firm has a substantial team of fixed-income managers supported by over 200 fixed-income specialist analysts and over 300 risk management professionals using a highly developed proprietary risk management software system.

#### Investment Team

The Fund and the FIGO Strategy in which it invests are managed by three Lead Portfolio Managers (LPMs), Rick Rieder, Russell Brownback and Aidan Doyle who are jointly and primarily responsible for the day-to-day management of the strategy and the Fund, including setting the overall investment strategy and overseeing the management of the Fund.

The LPMs are supported by a group of additional portfolio managers and over 200 specialist fixed-income analysts.

The Fund Manager applies a team approach to portfolio management because it believes that this has substantial benefits over one that is dependent on the investment expertise of only one or two people.

SQM Research believes that there is key person risk inherent in the roles of each of the three Lead Portfolio Managers who:

- oversee the entire investment process;
- spend most of their time on top-down macroeconomic analysis, supported by the firm's research capacity;
- allocate risk to each sector specialist who then decides how to use their risk budget in security selection, with oversight from the Lead portfolio managers; and
- use macro-overlay to help manage downside risk by hedging positions, generally smoothing the Fund's volatility of returns over a market cycle.

## 1. Investment Philosophy and Process

### Investable Universe

The fund has broad flexibility to invest anywhere across the global fixed-income universe. The FIGO strategy invests opportunistically across the spectrum of fixed-income sectors and securities. Allocations to all sectors are unconstrained and FIGO may invest significantly in non-investment grade bonds, non-dollar-denominated bonds, and bonds of emerging market issuers.

### Philosophy / Process / Style

The Fund Manager believes that:

- a diversified approach "to generate a little bit of money a lot of times", coupled with broad sector and duration flexibility is critical to generating durable and attractive returns; and
- no investment is risk-free and risk cannot be eliminated but proprietary technology platforms may help manage risk.

The investment process used to manage the Fund has:

- the extensive resources of a large-scale investment management firm to gain market insights from specialists in a wide range of fixed-income market sectors;
- judgment of an investment team of three extensively experienced lead portfolio managers led by the Chief Investment Officer, Rick Rieder;
- a focus on what the portfolio managers consider to be the best investment opportunities globally - in the most efficient and effective form.

The investment team seeks to manage duration risk within a band that ranges from minus 2 years to plus 7 years. Typically, the duration in the fund ranges from 0 to +3 years. In addition to fixed interest sector and security allocation, managing duration within a band provides the potential for excess returns (alpha) regardless of the direction of interest rates.

## 2. Performance & Risk

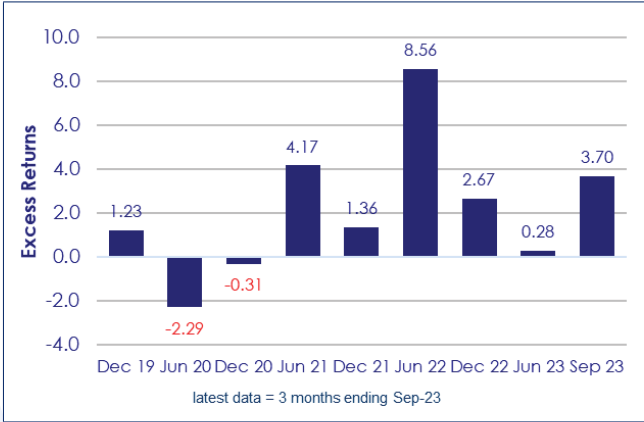
### Return Objective

There is no return objective stated in the PDS. The Fund Manager has stated elsewhere that the investment strategy combines the Fund Manager's highest conviction views from across all of fundamental fixed income to create a diversified portfolio, free of benchmark constraints, that maximises opportunities in bond markets while aiming to achieve low correlation with fixed income markets.

*SQM Research has compared the returns of the Fund with a Reference Index or Benchmark, the Bloomberg Global Aggregate Total Return Index in AUD as well as versus returns of a peer group of global bond funds that are available in Australia and are widely used. The chart below shows the excess turns of the Fund versus the Benchmark.*

SUMMARY

Fund Excess Returns %: Half-yearly (net of fees)



Length of Track Record

The Fund has a history of 9.1 years (or 109 months). Observations and analysis of returns will have substantial statistical meaning as a result of the sample size of observations.

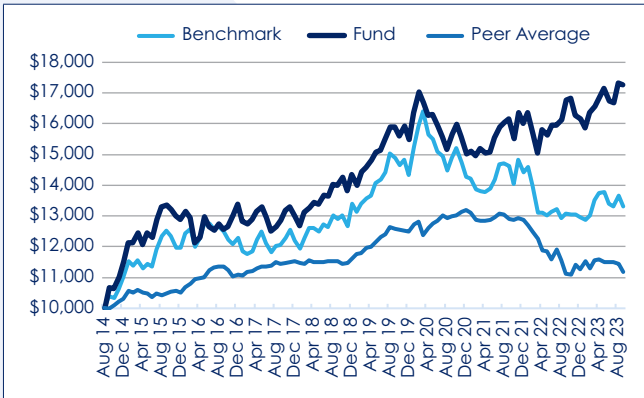
Risk Objective

The Fund's PDS does not state a risk level.

Fund Performance to 30 September 2023 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	-0.29	3.14	4.36	3.08	3.34	4.29	6.21
Benchmark	-2.58	-0.56	-1.48	1.85	-3.62	0.65	3.20
Peer Average	-2.24	-2.70	-3.23	0.41	-4.89	-0.64	1.13
Alpha	2.29	3.70	5.84	1.23	6.96	3.63	3.00

With dividends reinvested. Returns beyond one year are annualised. Return history starts Sep-2014  
 Benchmark: Bloomberg Global Aggregate TR AUD

Growth of \$10,000



Strengths of the Fund

- The experience and stability of the well qualified lead management team with an average of over 25 years of relevant fixed-income market experience.
- The parent company's size and scale provide portfolio managers with purchasing power and improve pricing and access to new issuance.

- The support of over 200 fixed-income sector specialists to source and analyse ideas for excess returns.
- The investment philosophy of using a diversified approach to generate a little bit of money a lot of times.
- The broad sector and duration flexibility that is needed to generate durable excess returns.
- A well-diversified portfolio invested across 40+ countries, 30+ currencies and over 1000 securities.
- A strong risk management orientation and a substantial investment in proprietary analytical risk management systems that provide timely and valuable information to portfolio managers for their use in making investment decisions and calibrating risk positions.
- The Fund has competitive fees.
- The strategy and the Fund have a long-term return track record that has demonstrated significant value added relative to peers and the recognised global fixed interest benchmark.





**Weaknesses of the Fund**

- There is key person risk inherent in the roles of each of the three Lead Portfolio Managers who:
  - oversee the entire investment process;
  - spend most of their time on top-down macroeconomic analysis which is a key to the long-term good performance of the Fund.
- The potential for any leverage that may be used to magnify the effects of portfolio allocation and selection mistakes.

**Other Considerations**

- The fund's flexibility in allocation across fixed-interest markets allows it to achieve desired returns in changing market environments.
- A market environment with moderate to high volatility levels that provides trading opportunities in conjunction with ample liquidity to implement trade ideas is advantageous.
- When volatility falls to extremely low levels, credit spreads become very compressed and the rewards for taking credit or structural risk are lower.
- When liquidity is diminished to the point where it is difficult to execute trades or implement strategies, the ability to capture dislocations in securities or sectors can be compromised and the expected alpha will be lower.

**Key Changes Since the Last Review**

- This report is an inaugural review.



## Investment Process Diagram

The Fund manager has provided the following diagram of its investment process:

### Our investment process incorporates deep resources and expertise to:

- Integrate macro, sector and security selection insights.
- Budget risk to the highest quality alpha sources that can help to provide diversified risk-adjusted returns.



## Process Description

### Investment Process

#### Research and Portfolio Construction Process

The investment approach employs collaboration between the portfolio teams, who are responsible for setting the top-down asset allocation framework for portfolio construction and the sector specialists and traders who are responsible for bottom-up idea generation, including research, analysis, security selection and execution.

## Investment Process

### Research and Portfolio Construction Process

*...continued*

The investment process centres around a series of daily and weekly meetings, chaired by Rick Rieder, CIO of Fixed Income. The structured process forms the basis for consistently diversified investment decisions. The process aims to employ the best ideas from the entire global fixed-income markets and integrate macro, sector and security selection insights.

The aim is to combine the highest conviction views from across all of fundamental fixed income to create a diversified portfolio, free of benchmark constraints, which maximizes opportunities in bond markets while producing returns that are less correlated to traditional fixed income indices.

### Idea Generation

Ideas relating to sourcing excess returns per unit of return volatility from:

- macro strategy factors and regime identification come from the Lead Portfolio Managers (LPMs);
- sectors of the fixed-income markets and individual fixed-income securities or derivatives come from the 200 fixed-income sector specialists.

### Screening and research

These ideas are then screened, researched, and analysed respectively by the LPMs or analysts.

The lead portfolio managers and the broader portfolio management team work closely with global credit research analysts who:

- are specialised by fixed-income sectors
- are located across the US, Europe and Asia
- form bottom-up positioning decisions on instrument, issuer, and sector selection, as well as forming relative value views across the capital structure, within individual sectors and markets.

The sector specialisation of the Portfolio Managers allows discussion with the analysts on the specific credit factors that are meaningful in terms of driving returns.

As part of this process, the credit analysts develop and maintain a direct dialogue with each issuer's management during the credit surveillance process, which allows them and the investment team to understand and regularly assess financial performance. In addition to direct dialogue with management, the analysts also speak to customers, suppliers, competitors, and other related entities to assess potential changes in a company's performance and value. The analysis incorporates relevant information from industry resources and considers macro or industry effects and their potential influence on the issuer.

The investment team can review all available information to determine potential changes to an issuer's credit quality and industry position. Based on fundamental analysis, portfolio managers compare each issuer's actual performance with its expected performance, and they monitor changes and trends in investment market values.

The investment team can therefore decide to either maintain a holding or take action to change the weighting in the portfolio.

### Investment Process

#### Research and Portfolio Construction Process

*...continued*

This bottom-up theme identification and positioning in turn provides input into the top-down allocation and overall risk setting. The top-down and bottom-up combined process is continuous, with constant discussion throughout the day, further aided by formal weekly meetings and frequent ad-hoc thematic discussions to encourage idea generation that is team-based.

The investment theses are constantly tested. The investment process is centred on a handful of daily, weekly, and monthly forums designed to review the macroeconomy, credit cycle, risk appetite, and allocation views as well as sector themes and trade ideas such as:

- Duration shifts within a band of minus 2 to plus 7 years and which has typically been in the narrower band of 0 to 3 years. The Fund Manager believes that active and flexible duration management is critical to generating returns and controlling risk across different interest environments, furthermore, the possibility to move the fund to a negative duration position offers the possibility to profit from an increase in interest rates.
- Yield curve strategies: While no specific yield curve position constraint is set for the strategy, the Fund Manager measures, monitors, and actively manages yield curve strategies according to the Fund's objective and tolerance for yield curve sensitivity. Yield curve exposure is evaluated using multiple duration and convexity measurements, including key rate duration analysis (KRD), which measures the sensitivity of a specific security or entire portfolio to shifts in portions of the yield curve. The Fund Manager views KRD analysis as a superior methodology because it shows how portfolios would react in non-uniform shifts across parts of the yield curve and allows the LPMs to position the Fund's portfolio to be insulated, or to benefit, from yield curve shifts. This analysis is conducted for each currency and market bloc.
- Credit and security selection. The goals of credit research are to identify opportunities to add value, avoid credit problems, and successfully navigate problems that may surface. Research analysts are embedded with the Global Sector Specialist teams, and no bond is purchased unless the credit is approved by the responsible research analyst;
- Sector rotation e.g., MBS vs. High Yield vs. EM The sector specialists bring bottom-up security and sector selection experience and expertise which forms part of the overall fund risk allocation input, as well as identifying bottom-up return generating opportunities.

The investment team's process therefore combines top-down direction-setting on the part of the three Lead Portfolio Managers with bottom-up opportunity identification and security selection by over 200 investment research professionals around the world, who spend all of their time on these bottom-up efforts.

The Lead Portfolio Managers (LPMs) oversee the entire investment process and spend most of their time on top-down macroeconomic analysis, supported by the Fund Manager's research resources.

The LPMs are responsible for allocating risk to each sector specialist who then decides how to use their risk budget, with oversight from the LPMs.

Communication happens globally via several daily meetings. During the daily meetings, sector specialists communicate with the team on different events and trade ideas in their specialty areas.

## Investment Process

Research  
and Portfolio  
Construction  
Process*...continued***Security Research and Selection**

The security selection process is based on the analysis of the Global Credit Research teams, and on the risk management group's quantitative assessment of the security and portfolio. When securities with superior relative value than those in the portfolio are found, the securities are considered by the portfolio managers. If consistent with strategy, the securities in the portfolio may be sold and a more attractive security may be purchased. A security might be sold to realize a gain after strong performance; to offset any realized losses in the portfolio according to the investment guidelines; in anticipation of changing prepayment speeds or a credit downgrade; to modify the yield curve bias, duration, or convexity characteristics of the overall portfolio; or to move into a sector or security that offers better relative value.

The ultimate credit investment decision represents a combination of several factors: credit fundamentals, relative value, and credit/sector diversification. The relative value of a security purchased must be attractive within its industry. Further, the security must be consistent with the overall investment strategy and represent a fit with existing portfolio exposures to the credit and the industry. Investment in security is always underwritten by the fundamental credit analysis of credit research analysts.

The strategy may invest significantly in non-investment grade bonds (high yield or junk bonds). Non-investment grade bonds acquired by the fund will generally be in the lower rating categories of the major rating agencies (BB or lower by Standard & Poor's, or Ba or lower by Moody's Investors Service, Inc. or will be determined by the team to be of similar quality. Split-rated bonds will be considered to have the higher credit rating.

**Portfolio Construction**

The investment team has a lot of flexibility when deciding where to invest for the FIGO strategy. Portfolio managers have all the discretion as long as the following limits are respected.

## Duration band

- -2 to +7 years; typical range 0 – 3 years,

## Key constraints/Sector Exposure

- Max below investment grade exposure 70%.
- No Bank Loans (UCITS vehicle).
- Equity < 10% of net assets: Single-name equities, equity futures, equity options, preferred equity, and convertible securities are limited to 10% in net delta-adjusted terms of NAV. There are no additional limits on gross exposure. We look at the use of any equity exposure mainly as a more liquid means to add or reduce credit beta risk in the portfolio in a more liquid manner than the cash bond market.
- Contingent convertible bonds are limited to 20% of total assets.
- Distressed Securities is limited to 10% of its total assets.

The Fund Manager's approach to managing fixed income emphasises sector rotation and security selection, while interest rate anticipation and duration positioning are typically of secondary importance. The performance of the strategy can largely be attributable to its diverse exposure to fixed-income sectors and sector rotation around these sectors.

## Investment Process

### Research and Portfolio Construction Process

*...continued*

The fund's unconstrained approach allows management to actively position the portfolio to seek to capture opportunities in all market conditions across quality, sector, geographic region, and duration.

In accordance with the relative value investment philosophy, investment and sector allocation decisions are made having regard to the current broad secular view on the markets. Position size and limit decisions will vary according to asset class but are mainly driven by the risk contribution of a security to the overall portfolio whether from a duration or credit risk perspective. To that end, country, sector, or security levels are generally unconstrained so long as their contribution to the overall portfolio does not cause the active risk budget of max 7% p.a. annualised volatility of return absolute risk to be exceeded.

The aim is for the portfolio to be well diversified. The portfolio managers, sector specialists, and Risk & Quantitative Analysis (RQA) team, monitor the risk and positions in the portfolio every day. If the team ever became concerned about one specific issuer, it would be discussed in the daily investment strategy meeting and appropriately managed.

### Risk Management

The portfolio managers are responsible for decisions regarding the six risk parameters inherent in the management of fixed-income securities: (i) interest rate risk, (ii) yield curve risk, (iii) cash flow risk, (iv) credit risk, (v) liquidity risk and (vi) currency risk. The Fund Manager quantifies each of these risk parameters daily and provides them online and in the daily risk management package.

- Interest Rate Risk (Duration Position): managed within a band of -2 to +7 years.
- Yield Curve Risk (Key Rate Duration): While there is no specific yield curve position constraint, yield curve exposure is evaluated using multiple duration and convexity measurements, including key rate duration analysis (KRD).
- Cash Flow Risk (Convexity): internally developed analytics evaluate each portfolio's cash flow risk with respect to its benchmark. Portfolios with more negative convexity are more susceptible to duration changes and corresponding fluctuations in interest rates. Based on the relative value approach employed the Fund Manager determines how much more, less or equal to the particular convexity of a portfolio's benchmark it desires the portfolio to be.
- Credit Risk: The goals of credit research are to identify opportunities to add value, to avoid credit problems, and to successfully navigate problems that may surface. Research analysts are embedded with the Global Sector Specialist teams, and no bond is purchased unless the credit is approved by the responsible research analyst.
- Liquidity Risk: a liquidity measure based on bid/ask spreads is incorporated into the relative value analysis.
- Currency Risk: currency exposure will be flexibly managed, and the Fund Manager will take active currency positions. The Fund Manager does not use a specific model to determine foreign exchange strategies. Views are based on factors such as relative interest rates, capital and trade flows, relative economic growth rates, and other macroeconomic indicators. Technical analysis and sentiment indicators are used to supplement this analysis. The risk management system is a multi-currency system that incorporates foreign exchange forwards and options and allows portfolio managers to assess the overall level of risk in the portfolio. Currency risk is unlikely to be the dominating risk of the Fund and historically, active currency risk has been relatively small.

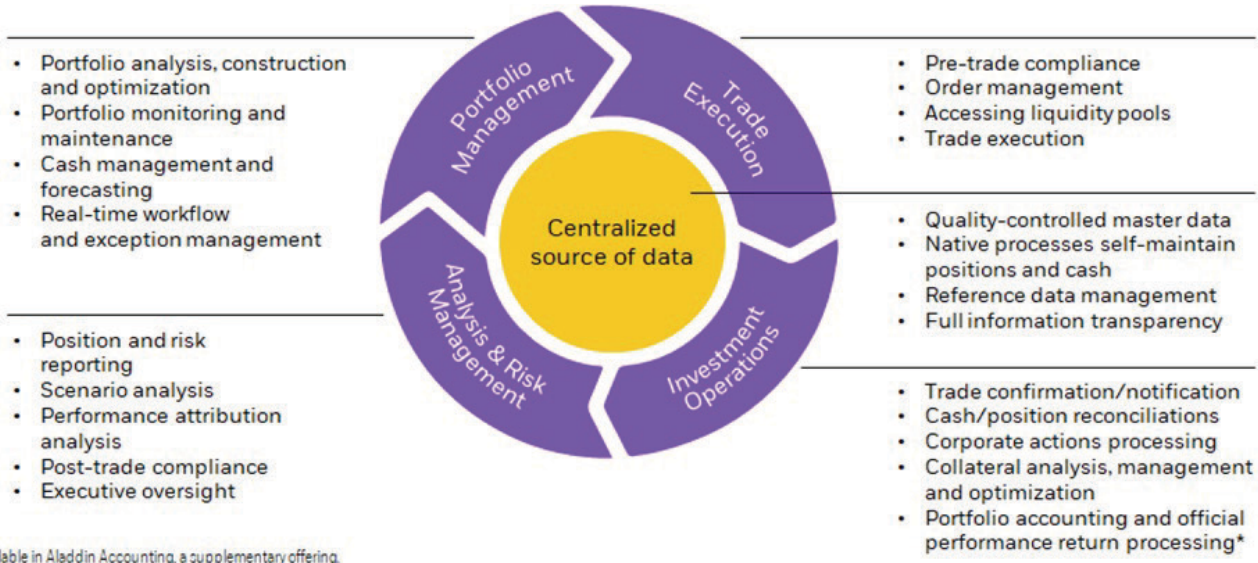
**Investment Process**

**Research and Portfolio Construction Process**

**Aladdin**

The Fund Manager's proprietary investment platform, Aladdin, integrates and connects all the functions needed to manage money. From portfolio management and trading to compliance, operations and risk oversight, Aladdin brings together people, processes, and systems to support an investment process.

*...continued*



\*Available in Aladdin Accounting, a supplementary offering.

**Measures of risk used.**

The Fund Manager does not view portfolio risk as something that can be quantified by any single measure. It produces reports providing security level, portfolio level, benchmark, and active summary aggregations of individual parametric analytical measures and their integration (as in parametric Value-at-Risk) as well as actual revaluations for scenario analyses, stress tests and historical simulations.



Investment Process

The chart below illustrates the analysis used in portfolio-level risk management.



Risk Factors	Stress testing	Correlation analysis	Daily Attribution
<ul style="list-style-type: none"> <li>Provide real time portfolio level risk updates across a variety of metrics</li> <li>DxS and Spread duration fund profiles across currencies are used more frequently in global credit portfolios</li> <li>Weekly meetings to discuss current risk exposures in fund</li> </ul>	<ul style="list-style-type: none"> <li>Analyze impact of actual and hypothetical scenarios (e.g. fiscal cliff, escalation of European debt crisis, etc.) on portfolio</li> <li>Full flexibility to use historical market moves as well as specify custom shocks</li> <li>Adjust portfolio positioning based on results</li> </ul>	<ul style="list-style-type: none"> <li>Analyze ex-ante and ex-post correlations among trades, strategies and factors using various time horizons and weighting schemes</li> <li>Limit correlations to ensure diversified sources of risk and alpha, which allows portfolio to outperform regardless of market conditions</li> </ul>	<ul style="list-style-type: none"> <li>Daily attribution provided at a security level</li> <li>Detailed weekly and monthly reports are provided to the global bond team</li> </ul>

The Value-at-Risk is the primary risk measure for the FIGO strategy. The VaR calculation is based on the following calculation parameters:

- One-tailed confidence level of 99%.
- Holding period of 1 month (20 business days).
- Effective historical observation period not less than 1 year (250 business days), unless a shorter observation period is justified by a significant increase in price volatility.
- Quarterly data set updates, or more frequent when market prices are subject to material changes.
- At least a daily calculation.
- The Analytical VaR (AVaR) model is used for the calculation. AVaR is a parametric multi-factor model.

Multi-factor models identify common factors, which are categories defined by common characteristics of different securities and determine the return sensitivity to these factors. Portfolio risk and return are decomposed into components due to common factors and a specific, or idiosyncratic, factor.

The Risk & Quantitative Analysis Group (RQA) has adopted a Risk & Performance Targets framework ("RPT") as an additional level of surveillance. Risk levels are reviewed daily against pre-specified risk bands for the portfolio. If it falls outside of these bands there must follow a defined resolution, escalation, and documentation process. For the FIGO strategy, a risk level above 7% p.a. would typically be grounds for a review by the Chief Risk Officer.



## Investment Process

### Research and Portfolio Construction Process

*...continued*

Standard stress tests are available daily for the investment team to review. In addition, RQA conducts relevant and timely stress tests regularly where exposures are examined. Ad-hoc stress tests are also conducted as deemed appropriate given dynamic markets.

The RQA team also utilizes the Risk Dashboard, which was developed exclusively for multi-sector fixed-income funds. The Risk Dashboard is the main tool used by the team to provide a comprehensive, highly detailed view of all the FIGO strategy's exposures, with data on each position's carry (or yield from coupon and other sources), liquidity, P&L contribution, and behaviour under a variety of stress tests, among other attributes. This tool enables the team to thoroughly understand portfolio positions and behaviour, which leads to better analysis, discussion and decision-making to budget risk to the highest quality sources that provide diversified risk-adjusted returns. If the team ever became concerned about one specific issuer, it would be discussed in the daily investment strategy meeting and addressed.

As part of the daily review, each sector lead will identify new opportunities or risks. The output from this daily review of the Risk Dashboard can lead to asset allocation shifts or implementation of macro hedges to mitigate key risk scenarios.

The Risk Dashboard is refreshed daily through Aladdin. The investment team starts every day with a discussion with RQA of what has changed on the Risk Dashboard and how that could impact the Fund's expected return and risk profile. Specifically, the team focuses on changes to:

- Volatility
- Correlations
- Expected returns
- Stand-alone risk and strategy level marginal contribution to risk
- Liquidity; and
- Stress test scenarios

The team focuses on these changes in conjunction with valuation moves and any changes in perceived relative value to determine any actions to take in the portfolio on a daily and continuous basis. Proprietary technology platforms may help manage risk, but risk cannot be eliminated. In addition, the following types of risk are specifically monitored:

#### Reputational Risk

Any factor that will affect the creditworthiness of companies over time, which includes the financial impact of non-financial factors. These may include board leadership, management quality, and mitigation of risks (e.g., physical risks, reputational risks, regulatory risks and legal risks). These risks may come from climate change, social trends, consumer behaviour, or government intervention. In fixed income, the emphasis is on the protection of downside risk.

**Investment Process**

**Research and Portfolio Construction Process**

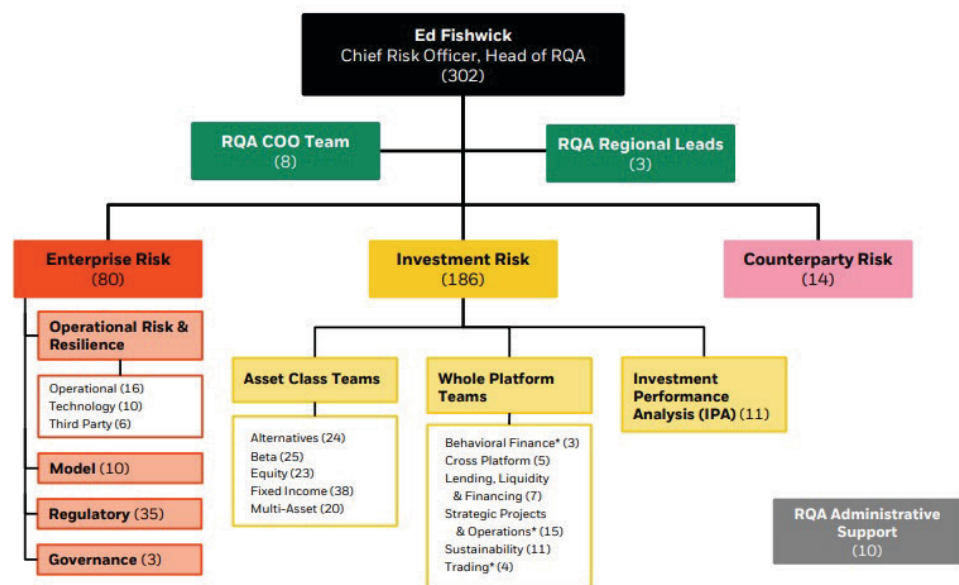
*...continued*

**Counterparty Risk**

As a fiduciary, the Fund Manager's approach is to manage counterparty credit risk conservatively. While risk management cannot fully eliminate the risk of investment loss due to a counterparty-related event, the firm has an established fiduciary counterparty risk management program led by the Counterparty & Concentration Risk Group ("The Group"), which was established in 2005. The program encompasses Counterparty Risk Governance, Counterparty Assessment and Monitoring, Counterparty Exposure Measurement and Monitoring, and Risk and Concentration Reporting. This framework covers counterparties for both bilateral and centrally cleared products such as derivatives, mortgage TBAs, foreign exchange, financing trades (repo and securities lending), equities, fixed-income securities and other forward-settling transactions.

The Risk & Quantitative Analysis Group (RQA) leads risk management efforts by providing independent top-down and bottom-up oversight to help identify investment, counterparty, operational, regulatory, and technology risks. RQA provides tailored advice, quantitative analysis, and constructive challenge to help ensure risks are properly understood and appropriately managed. RQA comprises over 300 professionals and is organized with a matrix structure; there is a global head for each product/functional area as well as a regional head within the major functions. The regional and functional dimension of our organizational structure connects people with expertise in all BlackRock portfolio management centres. The availability of daily portfolio information permits portfolio oversight responsibilities to be shared globally. The functional orientation encourages teamwork and the exchange of expertise. Members of RQA have specialized knowledge of each type of portfolio that BlackRock manages. RQA seeks to identify and properly measure key risks for each portfolio type. Actual investment performance is attributed to returns on different types of risk. RQA communicates proactively with portfolio managers to help them position portfolios and fully utilize BlackRock Solutions' analytical capabilities powered by Aladdin. A high-level organization chart follows:

**Risk & Quantitative Analysis (RQA) Organization**



\*Indicates team has a different reporting structure  
Data as of March 31, 2023. Subject to changes.

**Investment Process****Research  
and Portfolio  
Construction  
Process***...continued***Portfolio Characteristics****Portfolio Biases/Preferences**

The only preference or bias is towards holding at least 70% of the portfolio in readily liquid investments.

**Portfolio Turnover**

The portfolio turnover of the Fund has been high, consistent with the investment philosophy of using a diversified approach “to generate a little bit of money a lot of times”:

Year Ending	Portfolio Turnover - % of Fund
Dec-11	215.56%
Dec-12	123.61%
Dec-13	275.78%
Dec-14	421.06%
Dec-15	833.87%
Dec-16	1082.78%
Dec-17	383.37%
Dec-18	300.61%
Dec-19	242.99%
Dec-20	164.13%
Dec-21	171.67%
Dec-22	176.45%
Dec-23	132.34%

Portfolio turnover is defined as 0.5 times (Purchases plus Sales) / Average FUM.

**Liquidity**

The portfolio reflects a focus on liquid securities. The Fund Manager incorporates a liquidity measure based on bid/ask spreads into its relative value analysis. While in some cases this has led to missing some incremental value, the strategy has escaped major portfolio devaluations from unanticipated or unavoidable volatility associated with these types of securities.

Cash will normally not be above 10% of NAV. The actual percentage depends on market conditions and investment opportunities.

**Leverage**

This Fund does employ economic leverage (through the use of derivatives) but not through borrowing. The Fund Manager does not target any particular level of leverage, it can vary significantly over time and is provided for information only. The gross notional leverage is expected to be 500% over time.

**Investment Process****Research  
and Portfolio  
Construction  
Process***...continued***Derivatives**

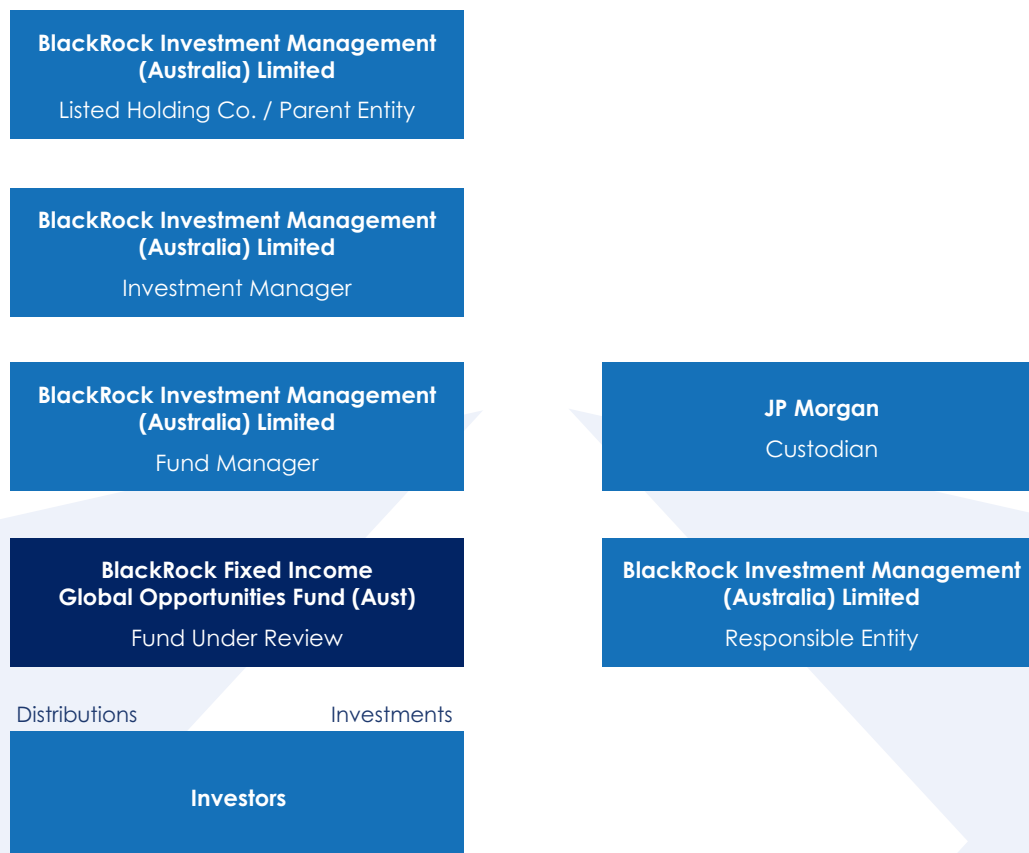
The portfolio management team may buy or sell indexed and inverse floating rate securities and options or futures on a security or an index of securities, or enter into swap agreements, including total return, interest rate and credit default swaps, or foreign currency transactions. The strategy for the Fund typically uses derivatives as a substitute for taking a position in the underlying asset and/or as part of a strategy designed to reduce exposure to other risks, such as currency risk.

All derivatives are incorporated into Aladdin, the enterprise-wide risk management system and holdings are reflected in daily reports. Each day positions are marked-to-market, and based on pre-determined threshold limits, margin calls are made, on a dealer-by-dealer basis, for each portfolio.

**Sell discipline**

There is no automatic sell process or stop-losses procedures in place. All decisions to buy and sell are made after consideration of quantitative research and credit analysis. A security might be sold to offset any realized losses in the portfolio according to the investment guidelines; in anticipation of changing prepayment speeds or a credit downgrade; to modify the yield curve biases, duration or convexity characteristics of the overall portfolio; or to move into a sector or security which has been targeted by the portfolio managers for the relative value it offers.

## Key Counterparties



## Parent Company

BlackRock Investment Management (Australia) Limited is a subsidiary of BlackRock, Inc. a publicly traded investment management firm, with common stock listed on the New York Stock Exchange which provides a broad range of investment management and technology services to institutional and retail clients worldwide.

As of 30 June 2023, BlackRock Inc. managed US\$9.4 trillion across equity, fixed income, alternatives, multi-asset, and cash management strategies for its clients. The firm's diversified investment platform and technology offerings have provided stable financial results allowing BlackRock to be profitable over the past ten years as of 30 June 2023 while expanding operating margins over this time. In addition, BlackRock's largest expense, employee compensation and benefits, accounts for approximately 50% of overall expenses. The business is largely fee-based, thereby generating strong recurring cash flow from operations.

The firm has a substantial team of fixed-income managers supported by over 200 fixed-income specialist analysts and over 300 risk management professionals using a highly developed proprietary risk management software system.

## Fund Manager

BlackRock Investment Management (Australia) Limited is the Fund Manager.

## Governance

### Responsible Entity

BlackRock Investment Management (Australia) Limited is the Responsible Entity of the Fund.

The Board of Directors of the Responsible Entity consists of **4** directors, **none** of whom are independent. Board members have an average of **27** years of industry experience.

*SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. SQM Research observes that the RE is not independent of the Fund Manager and that none of its directors are independent.*

The Responsible Entity's **Compliance Committee** composition was not fully disclosed. The RE was not able to disclose the Individual members of the Responsible Entity's Compliance Committee as it does not have consent to do so. The Responsible Entity did confirm that it has appointed an independent Compliance Committee that oversees compliance activities in relation to the schemes and that as of 31 October 2023, the composition of the Compliance Committee is comprised of three external independent members, and two employees.

*SQM Research views independence in a RE oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance. Compliance Committee members have undisclosed periods of industry experience.*

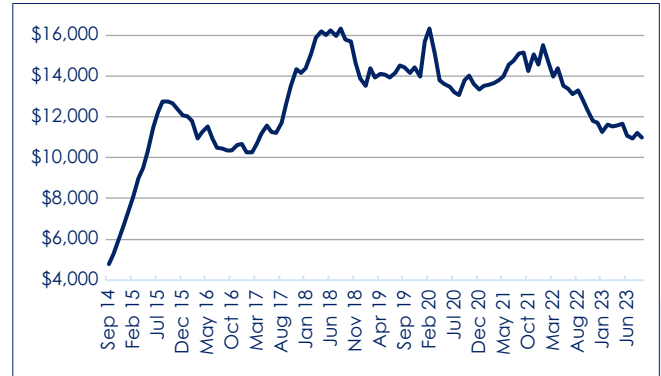
## Management Risk

Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the Fund or associated entities.

*Based on the materials reviewed, SQM Research believes that the Manager and associated key counterparties are reasonably qualified to carry out their assigned responsibilities. Management risk is rated as modest.*

## Funds under Management (FUM)

FUM for Fund under Review (\$mill)



Investment Team

Name	Responsibility / Position	Location	Years at Firm	Years in Industry	Qualifications
Rick Rieder	Managing Director	New York	14.0	36.0	BBA in Finance MBA (Wharton)
Russell Brownback	Managing Director	New York	14.0	35.0	BA in Economics MA in Management (Kellogg Graduate School)
Aidan Doyle	Managing Director	London	13.0	13.0	BA in Economics MSc Finance (Imperial College London), CFA




The Fund and the FIGO Strategy in which it invests are managed by Rick Rieder, Russell Brownback and Aidan Doyle who are jointly and primarily responsible for the day-to-day management of the strategy and the Fund, including setting the overall investment strategy and overseeing the management of the Fund. Each of the Lead Portfolio Managers has extensive relevant experience. Rick Rieder is very experienced in credit, while Russell Brownback and Aidan Doyle have spent most of their careers specialising in US and global macro strategies. They have complementary skills and experience. There is a group of additional portfolio managers who are important to the day-to-day portfolio construction process and implementation of the investment themes, and they effectively support the lead portfolio management team. More senior members of this group also have an important part

in the idea generation as well as the risk and capital allocation processes and provide input based on their specific fixed-income sector expertise.

The Fund Manager applies a team approach to portfolio management because it believes that this has substantial benefits over one that is dependent on the investment expertise of only one or two people. The Fundamental Fixed Income platform includes portfolio teams that are responsible for top-down asset allocation and portfolio construction within specific strategies and for ensuring that portfolios comply with agreed guidelines and constraints.

The entire team is supported by the Risk & Quantitative Analysis (RQA) group, which provides bottom-up risk oversight. The team's organizational chart is provided below.

**FIGO Investment Team\***

<p><b>Risk Management</b></p> <p>Richard Flynn (18/34) Yang Chen, PhD (16/28)</p>	<p><b>Portfolio Management Team</b></p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">   <b>Rick Rieder</b>                      CIO of Global FI (14/36)                 </div> <div style="text-align: center;">   <b>Russ Brownback</b>                      Managing Director (14/35)                 </div> <div style="text-align: center;">   <b>Aidan Doyle, CFA</b>                      Managing Director (13/13)                 </div> </div>	<p><b>Product Strategy</b></p> <p>Marilyn Watson (12/24) Milica Obradovic (2/22) Lowendo Stevens (1/16) Emile Bodagh (5/13) Francesco Di Antonio (5/7)</p>
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**Sector specialists drive bottom-up security selection**

Global Macro	Municipals	CMBS	Non-Agency MBS	ABS	CLO
US IG Corp Credit	US HY Credit	European Credit	Asian Credit	Agency MBS	Emerging Market

BlackRock Sustainable Investment Team
Global Fixed Income Responsible Investing team

**BlackRock's resources benefiting Investment teams**

BlackRock Investment Institute	Global Capital Markets	Responsible Investing	Trading & Liquidity
--------------------------------	------------------------	-----------------------	---------------------

**Team leverages the breadth and scale of the BlackRock fixed income platform.**



Within Fundamental Fixed Income the research analysts are organised by industry and are responsible for actively following news/events in their sector relevant to names in the portfolios and any potential opportunities. Analyst coverage of specific names, and hence several names will change depending on portfolio positioning and where analysts and portfolio managers jointly believe they can generate the best risk-adjusted return. Indicatively, the Fund Manager believes that the optimal number of core names for an analyst to cover intensively is approximately 30, with an additional 30 under higher-level surveillance.

Bottom-up opportunity identification and security selection are done by over 200 research professionals around the world, who spend all of their time on these bottom-up efforts.

Rick Rieder, Russ Brownback, and Aidan Doyle are the Lead Portfolio Managers, who:

- oversee the entire investment process;
- spend most of their time on top-down macroeconomic analysis, supported by the firm's research capacity;

- allocate risk to each sector specialist who then decides how to use their risk budget in security selection, with oversight from the Lead portfolio managers; and
- use macro-overlay to help manage downside risk by hedging positions, generally smoothing the Fund's volatility of returns over a market cycle.

The three lead PMs work directly with sector specialists across fixed income to generate excess returns (alpha) in the portfolio. Communication happens globally via the team's several daily meetings. During the daily meetings, sector specialists communicate with the team on different events and trade ideas in their specialty areas.

There is key person risk inherent in the roles of each of the three Lead Portfolio Managers.

### Staffing Changes

There have been very few material departures or additions in the last three years:

Departures			
Date	Name	Responsibility	Reason for Departure
31-Mar-23	Bob Miller	Lead Portfolio Manager	Retired

Russell Brownback replaced Bob Miller in the role of Lead portfolio manager. Brownback had been with the Fund manager for 14 years.

*SQM Research observes that the levels of investment experience and company tenure are strong across the investment team. The size and nature of staff turnover are not an issue of concern, in SQM's view.*

### Meeting Schedule

The table below shows regular meetings that form an essential part of the overall process.

Meeting	Agenda	Frequency	Participants
Macro Events Call	Global fixed-income teams discuss data releases and overnight market moves	Daily	CIO, Portfolio Managers, Analysts
Positioning Meeting	Multi-Sector Fund Team discusses portfolio positioning, risk and performance. Bi-weekly review of ESG risks.	Daily	CIO, Portfolio Managers, Analysts
Investment Strategy	CIO-led discussion across global fixed-income teams	Weekly	CIO, Portfolio Managers, Analysts
Sector Deep Dive	Weekly rotation of sector specialists to provide in-depth fixed-income sector insights	Weekly	Portfolio Managers, Analysts

Meeting	Agenda	Frequency	Participants
Daily Global Meeting	Portfolio teams across asset classes discuss market themes, liquidity, and risk	Daily	Portfolio Managers, Analysts
Portfolio Strategy	Lead portfolio managers review, discuss and debate top-down themes and risk posture	Weekly	Portfolio Managers, Analysts
Macro Speaker	External macro speaker addresses market views	Weekly	External guest, CIO, Portfolio Managers, Analysts
CIO Markets Call	Rick Rieder provides a medium-term horizon outlook and ongoing research designed to identify the prevailing investment regime	Monthly	CIO, Portfolio Managers, Analysts, Open to clients

*SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process. Interactive peer review and collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and shared history.*

### Remuneration and Incentives

The Fund Manager’s predominant compensation model includes a salary and discretionary bonus reflecting firm, business area, and individual performance. For most investment professionals, compensation reflects investment performance and the success of the professional’s business or product area. As professionals become more senior the discretionary bonus accounts for a larger percentage of total compensation.

Compensation decisions for employees are made annually following the end of the performance year. This timing allows full-year financial results to be considered along with other non-financial goals and objectives. Although the framework for compensation decision-making is tied to financial performance, significant discretion is used to determine individual compensation based on the achievement of strategic and operating results and other considerations such as management and leadership capabilities.

No set formulas are established, and no fixed benchmarks are used in determining annual incentive awards. In determining specific individual compensation amounts, several factors are considered including non-financial goals and objectives and overall financial and investment performance (net of fees). These results are viewed in the aggregate without any specific weighting or direct formula between any particular performance measure and the resulting annual incentive award.

Annual incentive awards are generated from a bonus pool. The total bonus pool is determined as a percentage of pre-incentive operating income within a range approved by the Management Development and Compensation Committee of the Board of Directors. The ratio of annual compensation and benefits expense to net revenue is also considered when determining

the annual bonus pool. These guidelines are designed to ensure a balance of shareholder and employee interests, that bonuses are closely tied to profitability and that overall compensation and benefits costs are competitive.

Given that the parent company is publicly listed, the firm can include equity as a component of compensation. At senior levels, a more significant percentage of the annual discretionary bonus is paid in the form of restricted stock awards that vest over three years. Select investment professionals have a portion of their annual discretionary bonus awarded as deferred cash that notionally tracks investment in products managed by the employee. These awards intend to align investment professionals’ compensation with the investment returns of the products they manage.

*SQM Research believes remuneration in the form of firm equity and client-focused performance bonuses act as strong incentives for optimising staff engagement, retention, and productivity. The intention (and SQM believes the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers’ needs and medium to long-term results.*

Fees and Costs	Fund	Peer Avg
Management Fee % p.a.	0.67%	0.39%
Expense Recovery/Other Costs % p.a.	–	–
Performance Fee %	0.00%	20.50%
Total Cost Ratio TCR % p.a.	0.67%	0.42%
Buy Spread %*	0.00%	0.09%
Sell Spread %*	0.00%	0.09%

\* This spread is the difference between the Fund's application price and withdrawal price and reflects transaction costs relating to the underlying assets.

### Management Fee

The management fee includes GST and is net of any applicable Reduced Input Tax Credits (RITC).

### Performance Fee

The Fund does not charge a performance fee

#### *SQM Research observes that:*

- *The Fund management fee is 0.67% p.a., which is 28 basis points higher than the peer group average of 0.39% p.a.*
- *The Total Cost Ratio (TCR) is 0.67% p.a., which is 25 basis points higher than the peer group average of 0.42% p.a.*
- *The Fund has no performance fee unlike many of the peer group funds.*

### Distributions

Distributions occur annually, subject to the availability of distributable income. In a scenario where the Fund's realised losses and expenses exceed income in a distribution period, the Fund may elect not to make a distribution during that time.

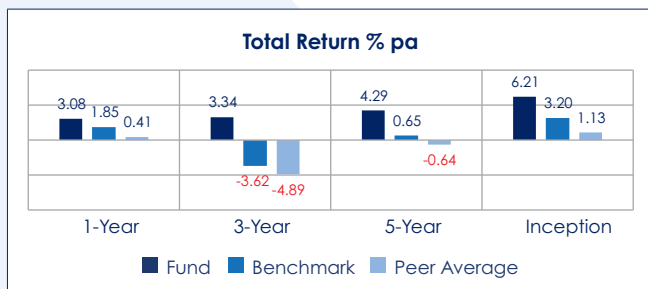
Risk/Return Data to 30 September 2023							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	-0.29	3.14	4.36	3.08	3.34	4.29	6.21
Benchmark	-2.58	-0.56	-1.48	1.85	-3.62	0.65	3.20
Peer Average	-2.24	-2.70	-3.23	0.41	-4.89	-0.64	1.13
Alpha	2.29	3.70	5.84	1.23	6.96	3.63	3.00
Metrics				1-Year	3-Year	5-Year	Inception
Tracking Error (% p.a.) - Fund				6.04	5.50	5.45	5.07
Tracking Error (% p.a.) - Peer Average				7.58	8.84	9.72	8.71
Information Ratio - Fund				0.20	1.26	0.67	0.59
Information Ratio - Peer Average				-0.20	-0.15	-0.14	-0.03
Sharpe Ratio - Fund				-0.06	0.22	0.34	0.51
Sharpe Ratio - Peer Average				-0.56	-1.14	-0.36	-0.12
Volatility - Fund (% p.a.)				7.57	8.86	8.87	9.03
Volatility - Peer Average (% p.a.)				5.96	5.68	5.59	4.72
Volatility - Benchmark (% p.a.)				6.72	8.45	9.32	8.85
Beta based on stated Benchmark				0.73	0.84	0.78	0.86

Distributions reinvested. Returns beyond one year are annualised. Return history starts Sep-2014  
 Benchmark: Bloomberg Global Aggregate TR AUD

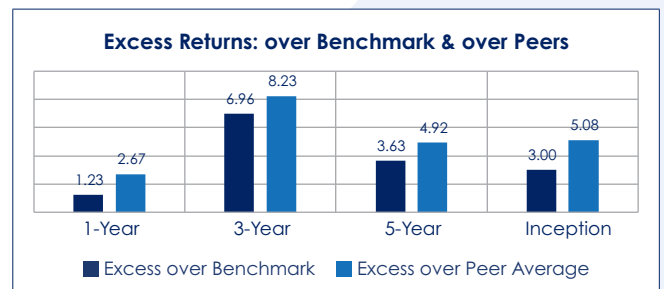
Quantitative Insight<sup>1</sup>

**Note:** Unless otherwise stated, all return and risk data reported in this section are after-fees and for **periods ending 30 September 2023, and are in Australian dollar terms.**

Returns



Excess Returns (Alpha)

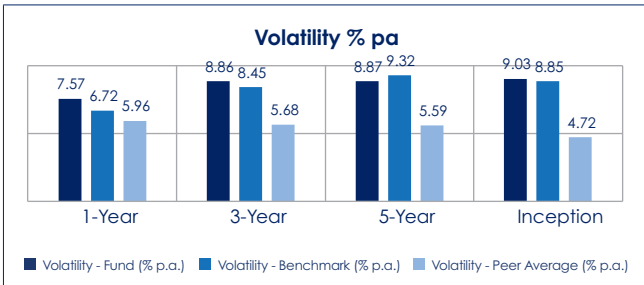


The Fund has displayed strong performance across all periods when compared with the benchmark and peers.

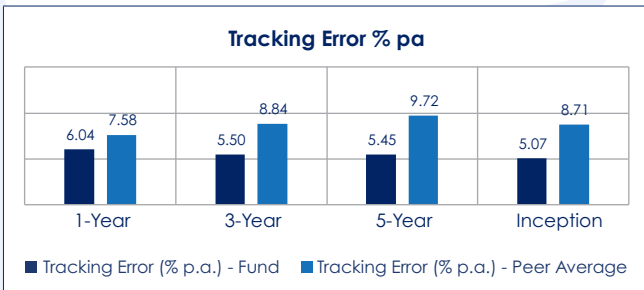
The **return outcomes** as described above are substantially above the reference index and are above SQM's expectations for the Fund relative to its fee level and volatility.

<sup>1</sup> Note: Sharpe and Information Ratios are not reliable comparison tools in periods where both the Fund and its peers/benchmark record a negative result

**Risk**



The Fund's **volatility** (annualised standard deviation of monthly returns) has tended to be around that of the benchmark and higher than that of the peers.



The Fund's **tracking error** (annualised standard deviation of monthly **excess** returns) has tended to be lower than that of the peers.

The **risk outcomes** as described above regarding volatility and tracking error are consistent with SQM's expectations for this Fund.

**Drawdowns**

Drawdown Summary			
Drawdown Size (peak-to-trough)			
	Fund	Bench	Peers
Average	-3.22%	-4.78%	-3.32%
Number	14	11	12
Smallest	-0.22%	-0.44%	-0.13%
Largest	-12.05%	-21.56%	-16.75%
Length of Drawdown (in months)			
	Fund	Bench	Peers
Average	7.2	5.4	8.1

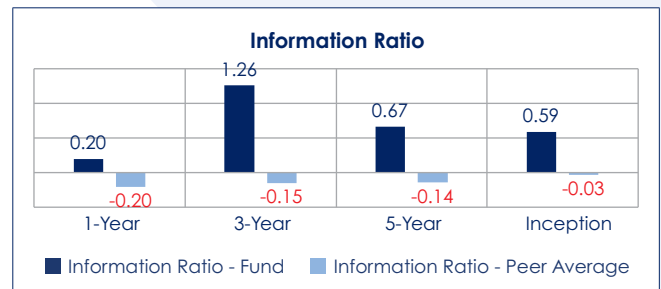
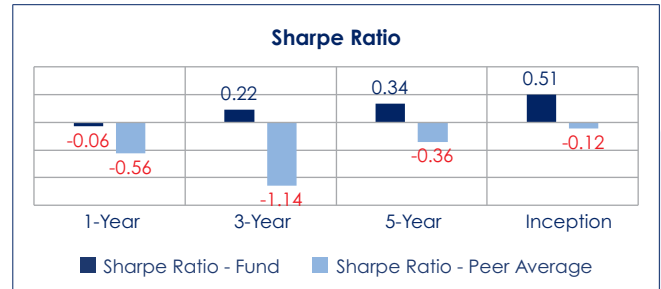
Length of Drawdown = time from peak to trough and back to the previous peak level

**Average** drawdowns have been better than the benchmark and similar to the peer average.

**Upside/Downside Capture**

	Downside Capture		Upside Capture	
	3 years	Inception	3 years	Inception
Fund	60.7%	70.8%	122.5%	98.4%
Peer Average	30.2%	10.1%	-11.5%	16.2%

**Risk-Adjusted Returns**



The Fund's risk-adjusted returns (as measured by Sharpe and Information ratios) have been materially better than the peer average.

**Correlation of Fund to Asset Classes**

Market	3 years	Inception	Market Indexes
Aust Bonds	+22.8%	+32.9%	Bloomberg AusBond Composite 0+Y TR
Aust Equity	-49.0%	-15.3%	S&P/ASX 300 TR
Global Bonds	-20.9%	+3.8%	Bloomberg Global Aggregate Hdg AUD
Global Equity	+0.8%	+24.9%	MSCI World Ex Australia NR AUD

**Correlation Key**

Low	High	Description
0%	20%	low, weak
20%	40%	modest, moderate
40%	70%	significant, material
70%	90%	strong, high
90%	100%	substantial

QUANTITATIVE ANALYSIS

Tail Risk

(The analysis in the table below looks at the **tail risk performance relationship of the Fund to the ASX300**, a practice that SQM has set as common across asset classes in Fund reviews. This approach recognises that for the large bulk of financial planner clients, their key traditional asset class **risk** regarding **size** and **volatility** is to Australian equities. Exploring that relationship is useful regardless of the asset class of the Fund itself, as it is helpful to understand how a Fund has acted in times of Australian equity market stress in terms of softening or exaggerating the negative performance experienced at such times.)

The table below details the **largest negative monthly returns** for the ASX 300 **since the inception of the Fund**. This is compared to the Fund's performance over the same months.

Extreme Market Returns vs Fund Return Same Month				
Index: S&P/ASX 300 TR		From Sep-14 to Sep-23		
Rank	Date	Market	Fund	Difference
1	Mar-20	-20.83%	-2.02%	+18.81%
2	Jun-22	-8.97%	+2.08%	+11.05%
3	Feb-20	-7.76%	+4.00%	+11.76%
4	Aug-15	-7.70%	+3.10%	+10.80%
5	Jan-22	-6.45%	+2.09%	+8.54%
6	Sep-22	-6.29%	+3.88%	+10.17%
7	Oct-18	-6.16%	+1.82%	+7.97%
8	Jan-16	-5.45%	+1.98%	+7.43%
9	Sep-14	-5.37%	+6.78%	+12.15%
10	Jun-15	-5.32%	-1.06%	+4.26%
<b>Totals</b>		<b>-80.31%</b>	<b>+22.64%</b>	<b>+102.94%</b>

	No. of Months		
<b>Correlation</b>	+56.9%	Positive Return	8
<b>Capture</b>	-28.2%	Outperform	10

Tail Risk Observations:

The data in the table above indicate that the Fund displays substantial **defensive characteristics** in the face of extreme Australian equity tail risk.

Snail Trail

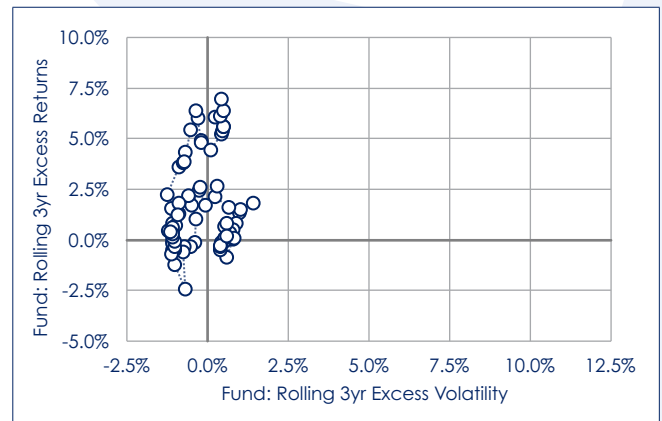
The snail trail chart and tables below show the Fund's rolling 3-year excess returns and rolling 3-year excess volatility.

There are 74 observations in total.

The two tables below display the distribution of these observations and their overall frequency across the risk/return quadrants.

Snail Trail Distribution			
Frequency	Lo-Vol	Hi-Vol	Total
<b>Hi-Return</b>	<b>29</b>	24	53
<b>Lo-Return</b>	15	6	21
<b>Total</b>	<b>44</b>	<b>30</b>	<b>74</b>

74 rolling 3-year observations			
% of Total	Lo-Vol	Hi-Vol	Total
<b>Hi-Return</b>	<b>39.2%</b>	32.4%	71.6%
<b>Lo-Return</b>	20.3%	8.1%	28.4%
<b>Total</b>	<b>59.5%</b>	<b>40.5%</b>	<b>100.0%</b>



In assessing a snail trail it is important to note the following:

**Q1 upper left-hand quadrant** - higher return than the Fund's market index with lower volatility (less risk). This is the optimal position.

**Q2 upper right-hand quadrant** - higher return than the Fund's market index with higher volatility (more risk). This can often be a desirable position depending on the attractiveness of the Sharpe ratios produced in this zone. It is important to note that in the case of inflation or cash-style benchmarks, the Q1 top left-hand quadrant is unachievable as it is not possible to deliver lower volatility than what is virtually zero for the benchmark. In such cases, the Q2 zone is the optimal position.

**Q3 lower left-hand quadrant** - lower return than the Fund's market index with lower volatility (less risk). Less than ideal, and Sharpe ratios can assist in assessing the risk/return trade-off in this zone.

**Q4 lower right-hand quadrant** - lower return than the Fund's market index with higher volatility (more risk). The least desirable outcome.

Consistency

The more "bunched together" the cluster of dots, the more consistent is the performance. A second indicator of consistency is the trail's nomadic nature. Trails that roam across multiple quadrants over time are indicating **low consistency** in the Fund's risk-return profile. The quadrant that **contains the bulk** of the Fund's snail trail is likely to be more representative of the Fund's risk/return characteristics and identity.



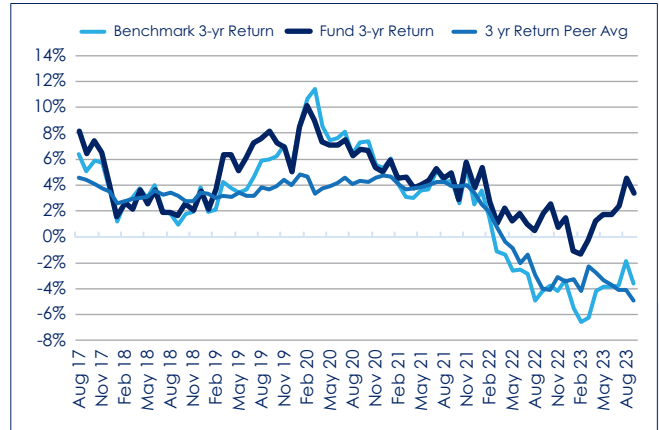
Annual Returns

Year	Fund	Benchmark	Peer Avg	vs. Bench	vs. Peers
2015	+12.16	+8.92	+2.07	<b>+3.24</b>	<b>+10.09</b>
2016	+3.63	+2.59	+5.51	<b>+1.04</b>	<b>-1.89</b>
2017	<b>-2.99</b>	<b>-0.57</b>	+3.77	<b>-2.41</b>	<b>-6.76</b>
2018	+10.52	+9.77	+0.98	<b>+0.75</b>	<b>+9.54</b>
2019	+7.93	+7.00	+7.44	<b>+0.94</b>	<b>+0.49</b>
2020	<b>-3.00</b>	<b>-0.52</b>	+5.69	<b>-2.48</b>	<b>-8.70</b>
2021	+6.79	+1.14	<b>-2.43</b>	<b>+5.65</b>	<b>+9.22</b>
2022	+0.89	<b>-10.21</b>	<b>-12.58</b>	<b>+11.10</b>	<b>+13.48</b>
Sep-23	+6.87	+2.76	<b>-0.77</b>	<b>+4.11</b>	<b>+7.64</b>

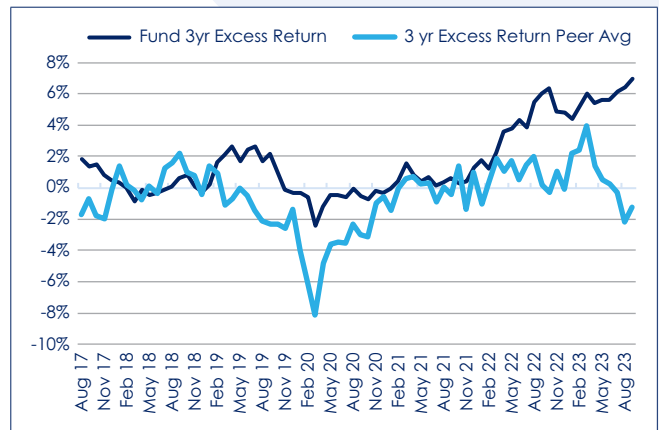
2023 data = 9 months ending Sep-23

Return and Risk

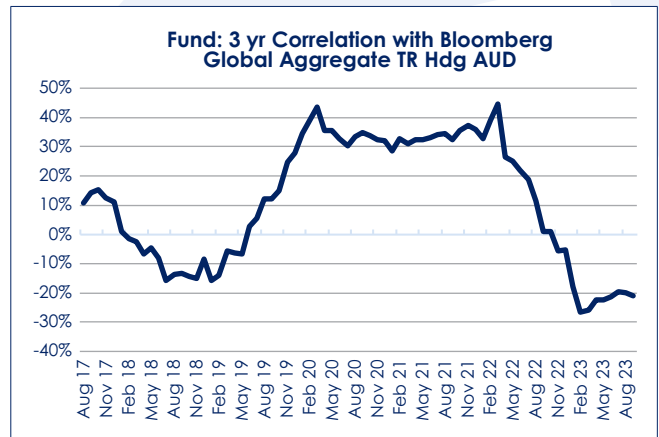
Rolling Returns



Rolling Excess Returns



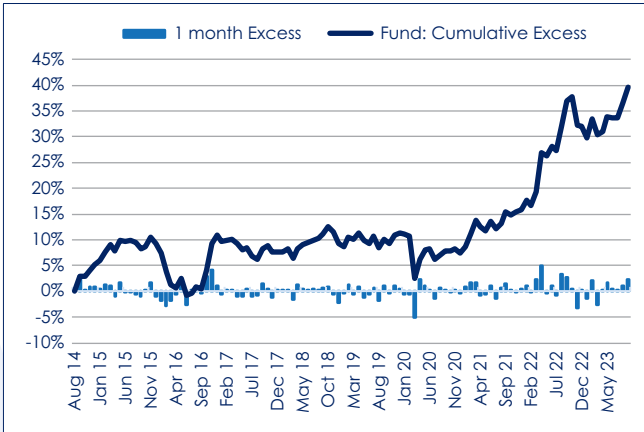
Rolling Correlation



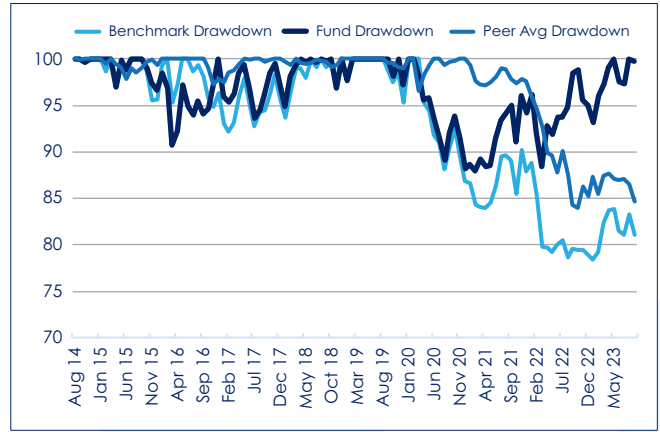


Return and Risk

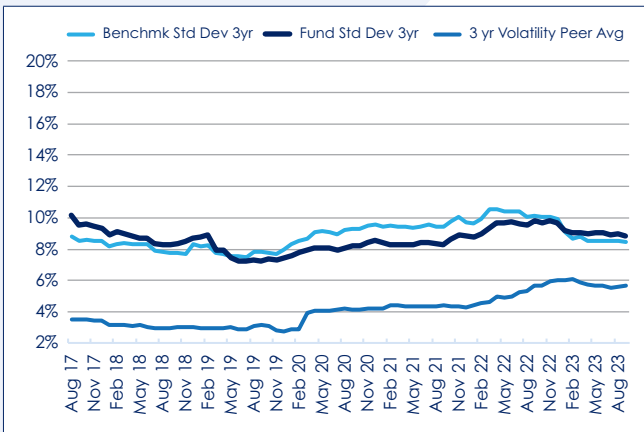
Cumulative Excess Returns



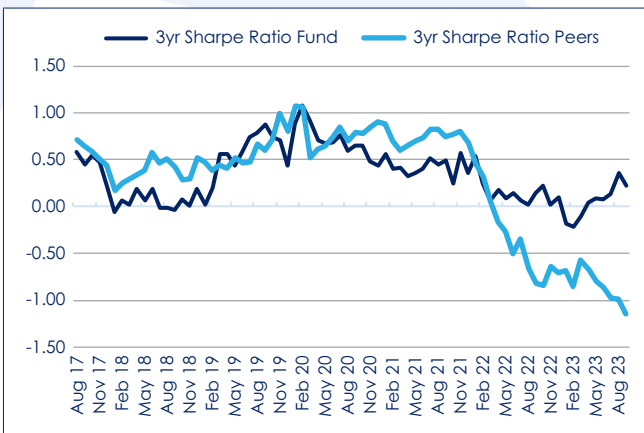
Drawdowns



Rolling Volatility



Rolling Sharpe Ratio



The table below outlines limits on the Fund's asset allocation and other risk parameters:

Fund Constraints and Risk Limits	Permitted Range or Limit
<b>Investment Policies</b>	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.
<b>Bond Credit Quality</b>	Maximum 70% below investment-grade exposure
<b>Maximum Liquidity Permitted</b>	Single-name equities, equity futures, equity options, preferred equity, and convertible securities are limited to 10% in net delta-adjusted terms of NAV.
<b>ESMA UCITS Collateral Rules</b>	<p>Cash collateral can only be reinvested into one of the following:</p> <ul style="list-style-type: none"> <li>• AAA Rated Money Market Fund (ICS)</li> <li>• High Quality (min AA-) Government Bonds               <ul style="list-style-type: none"> <li>• Time Deposits</li> <li>• Repo</li> <li>• Left in Cash</li> </ul> </li> </ul> <p>The collateral positions received should be capped at a maximum of 20% of NAV per issuer; this is inclusive of any cash collateral reinvestment.</p> <p>The following undue influence rules should run over the collateral positions received:</p> <ul style="list-style-type: none"> <li>• 10%* of the voting shares of a single issuing body</li> <li>• 10% of the non-voting shares of a single issuing body</li> <li>• 10% of the debt securities of a single issuing body               <ul style="list-style-type: none"> <li>• 25% of the units of a Fund</li> </ul> </li> <li>• 10% of the money market instruments of a single issuing body</li> </ul> <p>*conservative value of 10% used, reg limit is 20% for UK and Ireland but 10% for Lux and Germany.</p>
<b>Bond Duration / Maturity</b>	Duration band: -2 / 7 years (at portfolio level)
<b>Global Exposure</b>	<p>Internal limit of 99% one-day VaR figure should not exceed 1.12% under normal circumstances.</p> <p>Global exposure to derivatives must not exceed the NAV of the fund.</p>

**Drawdown**

A drawdown tracks the path of the Fund's accumulated NAV (with dividends reinvested). It is measured over the period of a peak-to-trough decline and the subsequent recovery back to that previous peak level. The total return over that entire period is, of course, zero. The metric of interest, the drawdown itself, is quoted as the percentage change between the peak and the trough over that period. Funds typically have multiple drawdowns of varying size and length over their lifetime. The table above shows how many drawdowns have occurred and their average peak-to-trough size.

**Alpha**

SQM defines **Alpha** as the excess return compared to the Benchmark and is calculated as

$$\text{Alpha} = \text{Fund Return} - \text{Benchmark Return}$$

**A General Note on Distributions for Managed Funds**

The Responsible Entity of a Managed Fund will provide for a regular schedule of distributions, such as monthly/quarterly/semi-annual or annual. This is subject to the Fund having a sufficient distributable income. The official total distributable income available to pay to investors is determined for the period of that Fund's financial year. By distributing the net taxable income of the Fund to investors each year, a Fund itself should not be liable for tax on its net earnings.

If a Fund makes distributions more frequently than once over the financial year, those distributions will be based on estimates of the distributable income for that distribution period. The final total amount of distributable income available for passing on to investors can only be calculated after the close of the financial year, based on the Fund's taxable income for that year.

If the total distributions a Fund pays out exceed total taxable income for that particular financial year, the excess amount may be treated as a return of capital rather than income. This will possibly have tax implications for the investor.

Due to the considerations outlined above, there may be periods in which no distributions are made, or a Fund may make additional distributions.

A Fund's ability to distribute income is determined by the performance of the Fund and general market conditions. Accordingly, there is no guarantee that a Fund will make a distribution in any distribution period.

**Total Cost Ratio (TCR)**

Managed Investment Schemes: The TCR for Managed Investment Schemes, Exchange Traded Products, and Investment Bond funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, and the impact of dollar-based fees.

Superannuation funds: The TCR for Superannuation and Pension funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, Administration Fees and Costs, the impact of dollar-based fees and a deduction of Super OTC Derivative Costs.

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