BLACKROCK GLOBAL ALLOCATION FUND (AUST)

BlackRock®

FUND UPDATE **31 July 2024**

Investment Performance (%)

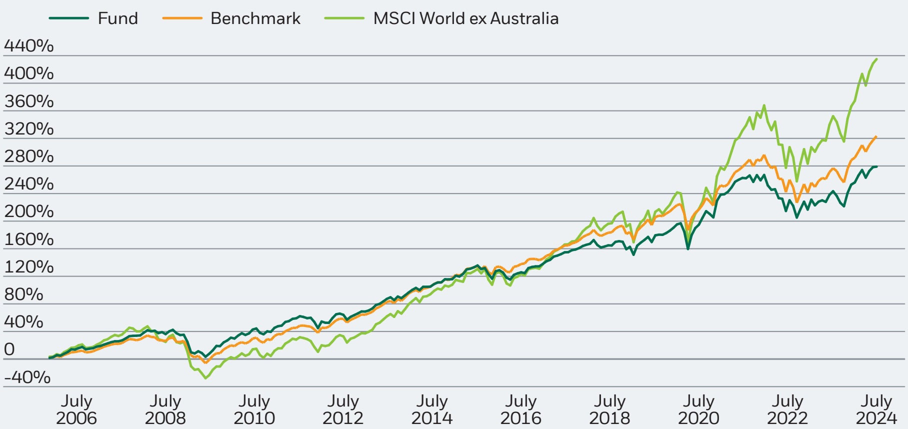
		1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
Return	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	0.16	4.38	7.37	10.36	1.52	6.21	7.23
	Internal Benchmark	1.50	5.74	9.03	12.39	3.34	6.58	7.86
	MSCI World ex Australia Hedged in AUD (For comparative purposes)	1.20	7.71	14.71	18.32	6.83	11.03	-
Risk^	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	-	-	-	-	10.51	10.95	9.15
	MSCI World ex Australia Hedged in AUD* (For comparative purposes)	-	-	-	-	15.97	16.71	14.58

^ 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 July 2024



Current Portfolio Strategy

- Global markets advanced in July, following better than expected U.S. inflation data and marked the third consecutive month that core U.S. inflation came in below consensus expectations, increasing the possibility that the U.S. Federal Reserve may begin the process of reducing the Fed funds rate before the end of the year and spurring a broad rally in risk assets. Global stocks, as measured by the MSCI World Index, gained +1.2% in July, but advances at the index level masked the considerable amount of turbulence lurking below the surface. The market's expectations of imminent rate cuts by the Federal Reserve not only sparked a rally in risk assets, but also triggered a massive rotation away from U.S. large-cap Technology stocks, in favour of the value style broadly, notably via cyclical stocks and small-cap stocks. Outside the U.S., major stock indexes in Europe and Japan advanced,

Monthly key portfolio themes

- 65% equities, 27% fixed income, 7% cash, 1% Precious Metal.
- **Regions:**
  Overweight: U.S and Japan

  Underweight: Asia ex- Japan (Australia)

  Sectors:
  Overweight: Information Technology, Energy, Consumer Discretionary, Healthcare

  Underweight: Consumer Staples, REIT's and Materials
- While the fund maintained a modest overweight to the US Dollar (+1.0%), exposure fell over the month as expectations for lower U.S. interest rates weighed on the U.S. dollar, which fell -1.7%. Broadly speaking, the team is comfortable maintaining a small overweight on the view US economic growth would likely remain more resilient than some of its major trading partners. Its status as a reserve currency also serves as an incremental hedge to equities during periods of market volatility as people tend to view the dollar as a more stable currency.

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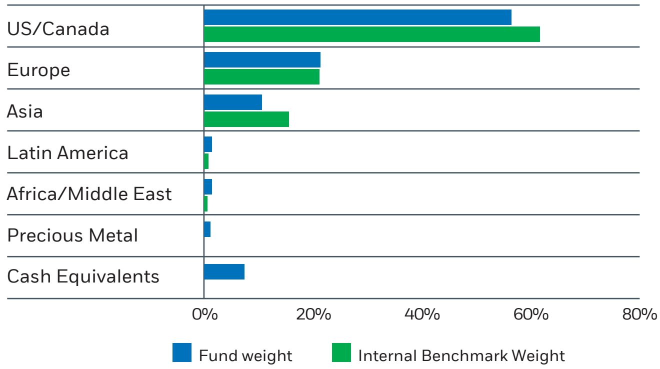
- Market Insights & Commentary
- Fund Performance
- Unit Prices

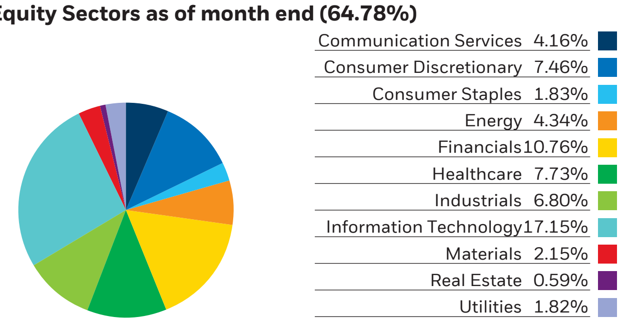
but fell in China, as the government's latest policy initiatives to support the country's struggling real-estate sector disappointed investors. Bonds enjoyed their third consecutive month of gains during July. Long-duration assets, such as 10-year U.S. Treasuries, performed particularly well given sentiment on imminent Fed cuts. Expectations of lower U.S. interest rates weighed on the U.S. dollar, which fell -1.7% during July. The combination of a falling U.S. dollar and falling interest rate expectations helped to boost the returns of International sovereign bonds by more than +3.4% during the month. Emerging market bonds also benefitted meaningfully from the July dip in the value of the USD. Corporate bonds, including U.S. investment grade and U.S. high yield bonds also rallied, as the benign inflation outlook and easing interest rate outlook was not accompanied by concerns about a material economic slowdown in the U.S.

- We believe that recent moderation in U.S. labor and inflation data will likely provide a sufficient basis for the Fed to begin cutting short-term rates later this year. The potential for easier monetary conditions, coupled with the prospects of mid-single digit nominal GDP growth, could continue to provide support for stock prices over the intermediate term, and leave us constructive on equities in aggregate. However, we felt it was prudent to further reduce our overweight given the potential for increased volatility over the near-term. Across fixed income, we incrementally added to duration, bringing positioning closer to neutral. Within U.S. rates, we prefer exposure at the intermediate part of the U.S. yield curve and remain cautious on long-dated U.S. government bonds due to the level of Treasury issuance needed to finance the U.S.'s historically high budget deficits, placing episodic upward pressure on long-term yields going forward (vs. a concern of a reacceleration in inflation). Looking beyond Treasuries, we remain of the view that nominal yields are quite compelling relative to the past 15 years and provide access to attractive level of absolute income that could augment equity positioning. The bulk of our fixed income exposure remains in a diversified basket of corporate credit and securitized assets. In-line with the fund's risk aware mandate, we hold exposure to an array of portfolio hedges (in addition to duration), including derivatives, cash, commodity-related and FX positioning.
- Over the month, the fund's equity exposure decreased on expectations that volatility could remain elevated as we head into the fall with the U.S. presidential election, coupled with seasonal weakness and lofty earnings expectations across several U.S. mega-cap tech stocks, which may prove difficult to sustain (notably given outperformance in recent quarters). That said, we are comfortable maintaining a modest overweight to equities on the view that economic strength could provide further support for corporate earnings growth through year-end.
- The performance rotation observed across equities in July was noteworthy. The outperformance of the Russell 2000 relative to the NASDAQ Composite Index during July was roughly 11% (with a return in July of 10.2% vs. -0.7% respectively), the largest monthly difference since February 2001. The team remained cautious on the durability of this rally given the current environment of moderating growth, and as a result had not meaningfully changed exposure over the month. With the backdrop of a moderating economy, we prefer to remain up in quality and were reticent to chase any short-term outperformance that small caps may exhibit.
- As a result, the bulk of the fund's overweights remain oriented towards secular growth companies that are cash flow generative with consistent profitability as we believe these characteristics have the potential to outperform against a backdrop of decelerating economic growth. This positioning is balanced with exposure to energy, the fund's second largest overweight as of July month-end, via companies that have been able to generate compelling cash flow and remain at attractive valuations relative to other sectors.
- As we reduced our equity overweight, we managed exposure to select companies using stop-loss screens, particularly in crowded trades across technology and consumer discretionary.

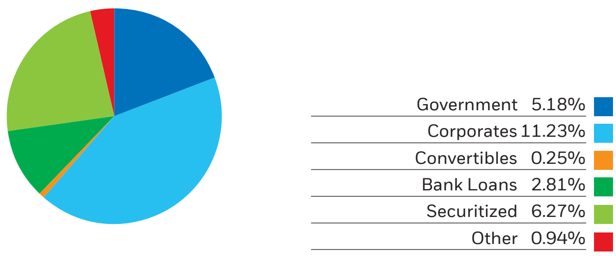
Regional Exposure as of month end



Equity Sectors as of month end (64.78%)



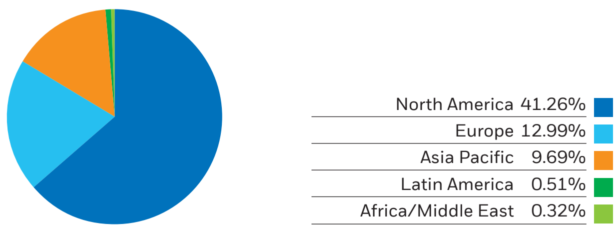
Fixed Income Sectors as of month end (26.67%)



Cash as of month end (7.43%)

Precious Metals (1.12%)

Equity Regional Exposures as of month end



- Within technology, reductions were largely within semiconductors, via a combination of option expressions and sales, ahead of what could be a volatile earnings period. Longer-term, the team remains of the view that mega-cap leadership is wellpositioned, supported by fundamentals, notably strong profitability, and cash flow generation. The fund remains cautious on early growth companies that tend to be more reliant on interest rates for financing.
- While the overall equity weighting decreased in July, the team increased positioning in quality cyclical exposure, notably in financials and energy. Additional exposure to financials was largely through select large banks in U.S. and Europe. Positioning in the U.S. remains focused on select US money centres as we believe there could be a catalyst for earnings growth given stable deposits, consumer loan growth and a potentially more benign regulatory framework than expected once Basel IV is finalized.
- Within derivatives, the team used option strategies, at both the index and individual security level, to manage the overall risk of the fund.
- We kept duration at around 2.0 years on the belief that the Federal Reserve will begin monetary easing this fall, though the extent and magnitude of cuts remains dependent on data. The remaining underweight relative to benchmark duration of 2.3 years, is largely a result of limited exposure to the long end of the U.S. curve due to concern that historically high U.S. budget deficits could cause short-term supply issues and push rates higher.
- Within rates, U.S. exposure remains focused on the belly of the curve (3-7 year) given attractive absolute yields coupled with the view that when the Fed begins to cut interest rates, the belly would stand to benefit as the curve steepens. Outside of the U.S. the Fund was overweight duration in Europe and to a lesser extent in Latin America and underweight in Japan
- Whereas we have leaned towards the US and Japan for opportunities in equities, we are more constructive on being a lender in Europe. In addition to the incremental carry when hedged back to the U.S. dollar, European curves are less inverted as compared to the US, with central bank policy likely to be more aggressive on monetary easing given weaker growth.
- 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 ~22% of AUM and is a key differentiator vs. traditional "60/40" portfolios. We believe the high nominal yields that these bonds offer more than offset the narrow credit spreads that currently accompany them and serve as a complement to risk assets.
- Over the month, the fund's exposure to high yield credit increased. We remain constructive on the high yield market given the overall health of issuers from a credit perspective as they have termed out their debt and absolute level of yields (vs. a view on spreads). In addition, market technicals, notably the supply of high yield bonds relative to investment grade and treasuries, remains much lower which could serve as an additional level of support. Remaining selective in the high yield market is key, with the team continuing to build exposure via a bottom-up approach.
- Given higher levels of volatility within fixed income options (relative to equity options), the team sold convexity via short payer swaptions (obligation to receive fixed and pay floating), on the view that rates may remain range bound.
- Exposure to gold-related securities increased. The team had initiated this positioning in June as an additional hedge in the portfolio, with exposures largely in option form. YTD, the metal has been buoyed by investor optimism on near-term interest rate cuts from the Fed as well as increased geopolitical concerns.
- Exposure to cash remained relatively stable over the months as increased exposure to fixed income, as offset by reductions in equities. In this environment, the team continues to rely on a combination of cash, along with income, derivatives, commodity-related and FX positioning to manage the fund's overall risk profile.
- The fund remained underweight the Chinese Yuan, and net short the Hong Kong Dollar because of the ongoing weakness in mainland China's economy due to lingering troubles in the country's large real-estate sector.

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

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