MONTHLY PERFORMANCE UPDATE

FOR WHOLESALE CLIENTS ONLY- NOT FOR DISTRIBUTION TO RETAIL CLIENTS

BLACKROCK®

OCTOBER 31, 2018

Enhanced Strategic Model Portfolios ETF Only

Macro Commentary – October 2018

Market Review

October proved to be one of the most challenging months since the inception of our models, with global financial markets showing a sea of red across both equities and fixed income. Signs of further tightening of financial conditions, and ongoing global trade tensions, raised concerns regarding the outlook for global growth. The sell-off in equities was widespread, and many markets around the world now exhibit negative returns year-to-date. Equity volatility measures such as the VIX increased significantly in October as investor sentiment soured. The general risk-off tone led to fixed income assets outperforming equities, especially after the first week of the month, but bond returns were not inspiring, either. Broad global fixed income indices finished the month largely flat, whilst Australian fixed income indices delivered slightly positive returns.

In the US, the S&P 500 index fell nearly 7% after rallying in previous months. This marks the largest monthly fall since September 2011. Almost half of US companies reported their corporate earnings for the third quarter of 2018. Results were generally quite positive, with 77% of those who released earnings reporting Earnings per Share (EPS) above the mean estimate, according to FactSet. However, investors focused on some US technology giants, which reported lower-than-expected earnings. A number of corporate executives mentioned trade concerns in their earnings updates, which fuelled investor uncertainty about the sustainability of earnings growth and the future outlook. In particular, lofty expectations for future revenue growth in the high-flying technology sector were cut back. The US Federal Reserve signalled that it is determined to continue raising interest rates, putting upward pressure on interest rates globally, further tightening financial conditions. Higher yields on short-term bonds have led to increased competition for capital, which in turn has contributed to falling equity prices. Risk sentiment deteriorated further when the IMF downgraded its global growth forecast for the first time in two years, citing US-China trade tensions as a key reason. While the outcome was in November was in line with expectations, in October the US midterm elections added to the growing list of uncertainties, given the implications for US policies.

Equity indices in other countries also suffered sharp losses in October. The UK FTSE 100 Index declined over 5%, the Stoxx Europe 600 Index fell nearly 6%, and some equity markets in Asia dropped even further. These declines pushed the year-to-date performance of many equity markets into negative territory. Part of the widespread sell-off was due to jitters about an intensification of the US-China trade conflict. Many investors believe that US protectionism is likely to have knock-on effects to trade dynamics globally, as it feeds through highly integrated corporate value chains across the globe. In Europe, softer economic activity data and concerns over Italy's fiscal standoff with the European Commission (EC) also weighed on sentiment. The Eurozone's GDP growth slowed more than expected at an annual pace of 1.7% in the third quarter of 2018, down from 2.1% in the previous quarter. The EC officially rejected Italy's draft 2019 budget and ordered the Italian government to submit another draft by mid-November. This is the first time the EC has refused to endorse an EU member state's draft budget. Concerns over EU stability intensified when German Chancellor Angela Merkel announced that she would not seek re-election as head of the CDU party she has led for 18 years. She also announced that she would be stepping down as Chancellor at the next election in 2021, a position she has held since 2005.

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Emerging markets followed a similar trajectory to their developed market counterparts, with the MSCI Emerging Markets Index declining over 8% in October. China's Shanghai Composite Index fell about 8% which makes it one of the world's worst performing equity benchmarks this year (down over 20% year-to-date). Chinese regulators appear determined to stem the rout, indicating an increase stock market liquidity and encouraging long-term funds to invest in the local market. China's central bank announced its fourth rate cut this year, whilst other central banks appear poised to hike rates.

In Japan, the Nikkei fell by about 9%. Japanese September industrial production was weaker than expected, suggesting that quarterly GDP did not expand and may even have contracted. A sequence of floods, a typhoon and an earthquake caused factory outages that disrupted the manufacturing-export chain. Korean equities were also battered in October, as the S&P Korea BMI dropped almost 13% and hit its lowest level since the first quarter of 2017.

Looking at defensive assets, fixed income indices generally recorded flat to slightly negative returns in October which, to some, may appear a little surprising given the risk-off environment. Historically, bonds tended to have negative correlation with equities and hence, tended to offer positive returns when equities sell-off. While this relationship generally held true in the second half of October, bond prices fell sharply in the first week of the month. Global government bond yields spiked early in October, led by the US where rates on US Treasuries hit multi-year highs (pushing down bond valuations). Global government bonds recovered over the rest of the month.

Commodity prices broadly declined in October, as demand concerns escalated on the back of falling global equity markets and rising US-China trade disputes. A strengthening US dollar also weighed on commodity prices. With few safe havens to be found, gold was one of the few positive standouts this month. Iron ore and coking coal prices also increased, while most other commodities declined. The Australian trade-weighted index finished October relatively flat and the Australian dollar was mixed across currency pairs.

In Australia, the S&P/ASX 200 declined by 6.2%, recording the worst performance since August 2015 and erasing its year-to-date gains. All sectors posted losses in October, with Media and Auto & Components suffering the largest declines. The Reserve Bank of Australia (RBA) left interest rates unchanged at 1.50%, which makes it twenty six months without a change to the cash rate. The RBA's post-meeting statement mentioned that 'credit conditions are tighter than they have been for some time'. Yields on Australian 10-year government bonds declined slightly which helped local fixed income indices deliver slight positive returns over the month.

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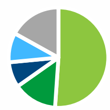
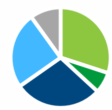
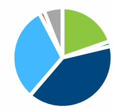
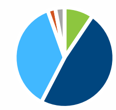
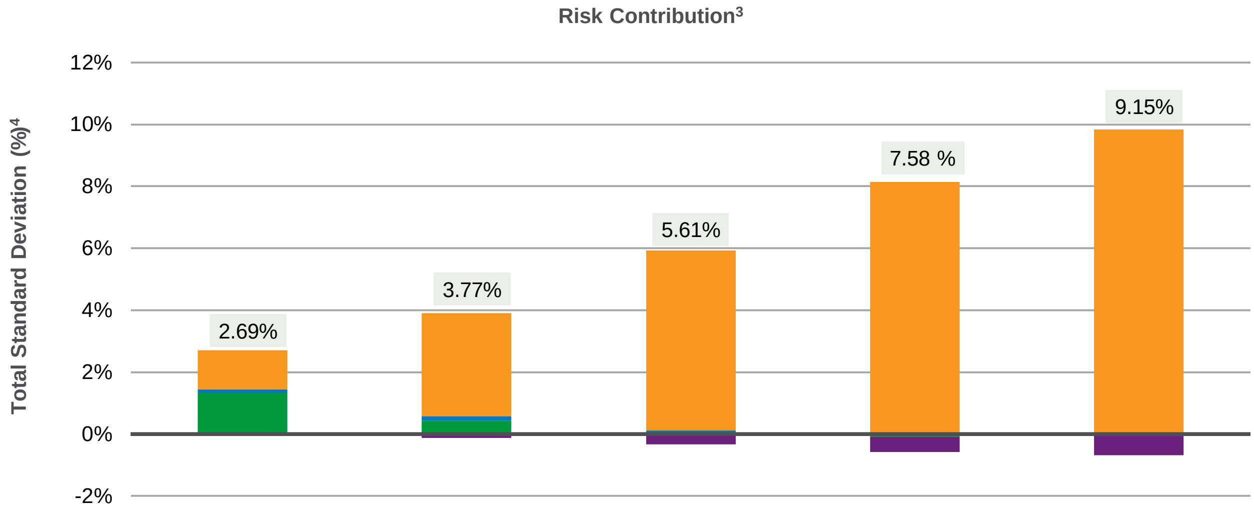
Portfolio Constituents & Weights – 15 August 2018[1]		Conservative	Moderate	Balanced	Growth	Aggressive
						
Composite Management Fee[2]		0.20%	0.20%	0.19%	0.20%	0.20%
Australian Fixed Income		**51.1%**	**42.8%**	**30.0%**	**19.7%**	**9.5%**
IAF	iShares Core Composite Bond ETF	47.5%	40.0%	30.0%	19.7%	9.5%
IGB	iShares Treasury ETF	3.6%	2.8%	-	-	-
International Fixed Income		**14.2%**	**9.7%**	**6.8%**	**1.6%**	**-**
IHCB	iShares Core Global Corporate Bond (AUD Hedged) ETF	14.2%	9.7%	6.8%	1.6%	-
Australian Equity		**8.2%**	**17.3%**	**28.5%**	**40.0%**	**48.3%**
IOZ	iShares Core S&P/ASX 200 ETF	3.3%	12.3%	23.5%	35.0%	43.3%
ISO	iShares S&P/ASX Small Ordinaries ETF	4.9%	5.0%	5.0%	5.0%	5.0%
Developed Equity		**9.5%**	**16.2%**	**24.7%**	**31.0%**	**36.7%**
IJP	iShares MSCI Japan ETF	-	2.0%	3.5%	4.2%	4.5%
IVV	iShares S&P 500 ETF	3.9%	5.6%	8.1%	9.9%	11.8%
IHVV	iShares S&P 500 AUD Hedged ETF	3.9%	5.6%	8.1%	9.9%	11.8%
WVOL	iShares Edge MSCI World Minimum Volatility ETF	1.7%	1.5%	2.5%	3.5%	4.3%
WDMF	iShares Edge MSCI World Multifactor ETF	-	1.5%	2.5%	3.5%	4.3%
Emerging Equity		**0.0%**	**0.0%**	**0.0%**	**1.7%**	**2.5%**
IEM	iShares MSCI Emerging Markets ETF	-	-	-	1.7%	2.5%
Cash		**17.0%**	**14.0%**	**10.0%**	**6.0%**	**3.0%**
ISEC	iShares Enhanced Cash ETF	14.5%	11.5%	7.5%	3.5%	-
BAUBIL	AusBond Bank Bill Index	2.5%	2.5%	2.5%	2.5%	3.0%

Risk Analysis

These portfolios seek to provide a range of risk and return levels by diversifying across a wide variety of factors that can impact investments, such as interest rates, credit spreads, foreign exchange, equities and non-traditional exposures. This chart leverages BlackRock's proprietary risk management system – Aladdin® – to show the contribution of individual risk factors.



	Conservative	Moderate	Balanced	Growth	Aggressive
Rate Risk	1.35%	0.44%	-	-0.07%	-0.05%
Credit Risk	0.10%	0.15%	0.13%	0.05%	0.01%
FX Risk	-0.02%	-0.13%	-0.33%	-0.50%	-0.63%
Equity Risk	1.26%	3.31%	5.81%	8.10%	9.82%
Total Standard Deviation[4]	2.69%	3.77%	5.61%	7.58%	9.15%

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Performance Highlights

- All model portfolios delivered negative total returns through October as volatility spiked across both global equities & fixed income assets.
- The model portfolios underweight position to broad Australian equities contributed to active returns, as the S&P/ASX 200 benchmark sank 6.05% through the month of October. The model portfolios tactical, overweight to small cap Australian equities (as represented by ISO), was however detrimental to both total & active model performance, as the benchmark collapsed, down over 9% through the month.
- Model portfolio underweight positioning to European equities delivered positive, active returns as Eurozone GDP softened, coupled with mounting risks around political concerns.
- Overweight US equities also proved to be detrimental to model performance as uncertainty over the sustainability of earnings growth fueled weakness in US equities, with the benchmark S&P500 (unhedged) index down 4.92% through the month.
- Within Fixed Income, the model portfolio positioning only moderately dampened performance throughout the month. Underweight global credit assets delivered modest active returns, with high valuations continuing to limit upside. Overweight positioning to domestic fixed income assets added to model returns, with the Bloomberg AusBond Composite 0+ Yr index (represented by the ETF IAF), returning 0.48% in October.

	October 2018	3 Months	YTD	One Year	Three Years	Since Inception[6]
Conservative	-1.15%	-0.50%	1.17%	1.91%	3.16%	2.95%
Benchmark[5]	-0.84%	-0.36%	1.50%	2.30%	3.09%	2.98%
Moderate	-2.24%	-1.34%	0.92%	2.07%	3.90%	3.63%
Benchmark[5]	-1.91%	-1.24%	1.24%	2.42%	3.83%	3.69%
Balanced	-3.57%	-2.33%	0.73%	2.44%	4.70%	4.47%
Benchmark[5]	-3.26%	-2.26%	1.13%	2.84%	4.74%	4.64%
Growth	-4.87%	-3.37%	0.54%	2.80%	5.68%	5.39%
Benchmark[5]	-4.63%	-3.35%	0.86%	3.12%	5.78%	5.62%
Aggressive	-5.87%	-4.16%	0.40%	3.07%	6.31%	6.14%
Benchmark[5]	-5.62%	-4.11%	0.80%	3.44%	6.50%	6.42%

Performance is based on AUD total returns with income reinvested and net of total expense ratios but gross of transactions costs. Inception date is 30 January 2015. Past performance does not guarantee future results. For further information on the Risk Contribution and Risk Exposures, please see the end of this document. This information should not be relied upon as investment advice, research, or a recommendation by BlackRock regarding (i) the iShares Funds, (ii) the use or suitability of the model portfolios or (iii) any security in particular. Only an investor and their financial advisor know enough about their circumstances to make an investment decision.

FOOTNOTES

[1] The model portfolios, allocations and data are as of last portfolio rebalance, 15 August 2018 & are subject to change. Data shown is for informational purposes only, does not represent an actual account, and is not the result of any actual trading. Actual investment outcomes may vary.

[2] Composite Management Fee is as of 15 August 2018 and subject to change. Composite Management Fee is the weighted average Management Expense Ratio (MER) of the underlying individual iShares ETFs' management fees included in the model portfolios.

[3] BlackRock Aladdin, 31 July 2018.

[4] Standard deviation for the model portfolio is a statistical estimate measuring how dispersed returns are around an average. Standard deviation is estimated using the risk factor exposures and volatilities of the underlying funds, based on BlackRock Solutions multi-asset class risk models, and takes into account the correlations of these factors across the portfolio. Standard deviation is not meant to be a prediction of fund or model volatility and actual volatility of any portfolio based in whole or in part on the models shown will vary and may be higher.

[5] The benchmark is a composite of iShares ETFs listed on the ASX, including IOZ, IVV, IHVV, IVE, WDMF, WVOL, IAF, IGB, IHCB & AUD cash, using ETF price returns.

[6] Inception date of the portfolios is 30 January 2015.

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PERFORMANCE DATA

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