BlackRock Global Allocation

Quarterly Investment Option Update

30 June 2022

Aim and Strategy

The Fund aims to provide high total investment return through a fully managed investment policy utilising international equity securities, debt and money market securities, the combination of which will be varied from time to time both with respect to types of securities and markets in response to change market and economic trends. Total return means the combination of capital growth and investment income.

Currency is actively managed in the Fund around a fully hedged Australian dollar benchmark.

Equity Sector Allocation	%
Communication Services	4.26%
Consumer Discretionary	7.29%
Consumer Staples	1.90%
Energy	4.08%
Financials	5.62%
Healthcare	7.80%
Industrials	5.19%
Information Technology	10.81%
Materials	4.09%
Real Estate	0.71%
Utilities	1.21%
Index Related	0.03%

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au/performance

Investment Option Overview

Investment Category	Multi Sector
Suggested Investment timeframe	5 years
Relative risk rating	6 / High
Investment style	Specialist
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Equities	60	52.98
Fixed Income	40	15.72
Precious Metals	0	0.33
Cash Equivalents	0	30.96

Portfolio Summary

Global stock and bond markets resumed their declines in June as investors remain concerned that central banks will tighten monetary policy too aggressively, causing an unintended economic contraction. The U.S. Federal Reserve increased the Fed funds rate by 75 bps in June, its highest periodic increase in the bank's key rate gauge since 1994, and strongly signaled that it will continue to increase the Fed funds rate at its upcoming July meeting. Inflation fears were top of mind for investors during the first half of June, as an elevated core CPI print for May caused bond yields to rise sharply. However, during the final two weeks of the month, concerns about economic growth moved to the forefront of investors' concerns, causing stocks to fall sharply along with bond yields. Global stocks, as measured by the MSCI World Index, fell -8.7% in June, posting their worst monthly performance so far in 2022. US equities, as measured by the S&P 500 fell -8.3% during June and is now -20% on a YTD basis, capping the index's worst first half of any calendar year since 1970. Within bonds, the Bloomberg U.S. Aggregate Bond Index, fell -1.6% in June and has now fallen -10.4% year-to-date, marking the worst first half performance for the index on record. U.S. high yield bonds and emerging market bonds fell particularly sharply during the month, as these riskier corners of the fixed income markets proved particularly vulnerable to the overall "risk off" tone and growing recession fears that dominated investor sentiment.

Investment Option Commentary

- Looking ahead, the manager believes the major risk to consumption and the broader economy isn't an organic growth slowdown but the degree to which extreme food and energy price increases lead central banks to raise interest rates beyond the level that would have otherwise been necessary. Despite tightening financial conditions, the manager expects the U.S. to avoid recession in 2022 due to the relative strength of the economy coming into this slowdown. Capital spending is still near its peak, household and corporate balance sheets are pristine, household excess savings are robust, and the tightness in the labor market should provide structural support for consumption, even if it is slowing. This aggregate strength should be able to absorb a large amount of tightening - and slow down substantially - without stalling out economic growth. If the manager's base case proves too optimistic, and Fed policy sends the U.S. into recession, the manager believes any contraction in economic activity is likely to be modest in historical terms, given the strength of consumer and corporate balance sheets. In a recent market insight published by PM, Rick Rieder, the manager outlined a summary of the team's macro views. In line with this cautious outlook, positioning remains underweight equities and duration, with a larger balance in cash to help buffer market volatility.

- Total **equity exposure** was reduced by ~1% over the month, mainly driven by market movement as equities declined ~8%. While the team remains patient amidst the heighted volatility, BlackRock opportunistically managed exposure in select sectors, adding to high conviction segments that had sold off and trimming exposure that had outperformed the market, notably within energy.

- Sector positioning reflects a **barbell approach** favoring secular growth themes alongside quality cyclicals. This reflects a desire to lean into "GARP" (growth at a reasonable price) and quality (companies that can generate strong free cash flows and have low leverage ratios.)

- Within healthcare, the Fund added to select U.S. **pharmaceutical companies** with robust pipeline of products to support free cash flow growth as well as a U.S. **medical device company** that is a leader in diabetes solutions with key products anticipated to launch later this year.

- The Fund added exposure to select **European luxury retailers** positioned to benefit from significant pent-up demand and a strong U.S. consumer, with a lower impact from adverse pricing impacts associated with higher inflation.

- While energy remains the Fund's largest overweight, given the very strong sector performance YTD the team took profits in select **oil & gas producers.** This slight reduction also aligns with a slightly more cautious view on a potential short-term pull back from a broader deceleration in economic growth.

- **Total portfolio duration was +0.8 years** as of June month-end, up from +0.7 years as of May month-end. While still a significant underweight relative to a benchmark duration of 2.5 years, the team has slowly added back exposure in the U.S. in recent months given the increase in rates YTD. That said, due to the manager's expectation that rates have further to rise, the manager is not inclined to significantly increase the manager's duration exposure at the current time.

- The manager continues to emphasize **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 ~8%** of AUM and is a key differentiator vs. more traditional "60/40" portfolios.

- Within **credit**, the team has been opportunistically adding back exposure, both in investment grade and high yield. With the significant back-up in yields YTD, the team believes that credit is once again an attractive source of carry for the portfolio.

- The manager continues to maintain exposure to **securitized debt (~0.7%)** as the manager believes the asset class offers attractive carry and total return potential relative to other fixed income assets. Furthermore, securitized assets have historically tended to be less sensitive to interest rates than traditional high-quality bond sectors, which could bode well if the Fed continues to increase the Fed funds rate.

- The manager has minimal exposure to **gold-related securities** (0.2% of assets) given the manager's expectation that real interest rates are likely to continue to rise from historically low levels. While gold can be an effective partial hedge for inflation long-term, the manager would rather increase exposure to companies with pricing power who can raise prices as inputs costs rise, as a hedge against near-term inflation.

- Given the current environment, BlackRock is maintaining an elevated exposure to cash equivalents, as the manager believes cash to be a more **efficient means to hedge equity risk** relative to duration sensitive U.S. Treasuries. Considering the current elevated level of market volatility, the manager's sizable cash balances also act as a **source of funding** as capital is opportunistically deployed.

- Overweight to the **U.S. Dollar** (67% vs 60% for benchmark). In an environment where few asset classes are likely to be effective hedges against equity market volatility, the manager believes an overweight position in the USD can help mitigate aggregate portfolio risk, particularly in an environment whereby the U.S. Federal Reserve appears to be much more readily committed to raising short-term rates relative to other major central banks such as the European Central Bank (ECB), the Bank of Japan (BoJ), and the People's Bank of China (PBoC).

Availability

Product name	APIR
SignatureSuper *	AMP1803AU
SignatureSuper Allocated Pension *	AMP1797AU

*Closed to new investors

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