BlackRock Global Allocation

Quarterly Investment Option Update

30 September 2022

Aim and Strategy

The Fund aims to maximise capital growth and investment income returns by investing in global shares, fixed income and cash. The investment manager will generally seek to invest in shares that are believed to be undervalued and expected to provide a high total return relative to alternative equity investments.

The strategy can also invest in all types of debt securities, although the investment manager may only invest up to 35% of the portfolio's assets in junk bond, corporate loans and distressed securities.

The strategy may short sell securities and use financial derivatives to protect against risks or enhance returns. Currency is actively managed around a fully-hedged Australian dollar benchmark. The strategy is not bound by specific asset allocation ranges or diversification targets and has full flexibility to invest at any spectrum of its asset allocation range. The investment manager may vary the portfolio in response to changing market conditions and economic trends. The performance benchmark is a weighted average of the Australian dollar-hedged returns provided by market indices in underlying asset classes.

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	48.66
Fixed Income	40	31.43
Precious Metals	0	0.38
Cash Equivalents	0	19.53

Equity Sector Allocation	%
Communication Services	3.44%
Consumer Discretionary	6.76%
Consumer Staples	2.00%
Energy	3.65%
Financials	5.28%
Healthcare	7.39%
Industrials	4.62%
Information Technology	10.21%
Materials	3.52%
Real Estate	0.62%
Utilities	1.16%
Index Related	0.00%

Portfolio Summary

Global stock and bond markets continued to fall precipitously in September as various measures of U.S. inflation indicated price acceleration despite the most aggressive interest rate hike campaign by the U.S. Federal Reserve since the early 1980s. Persistent inflation data led investors to conclude the Fed would likely need to keep monetary policy restrictive, causing both stocks and bonds to suffer their worst monthly declines of the year. Global stocks, as measured by the MSCI World Index, fell -9.3% in September due to an expectation of ever tightening monetary conditions. Leading global stock markets lower were Emerging Market equities, which are being adversely affected by a rapidly rising U.S. dollar. As was the case with equities, surprisingly strong inflation caused bonds (as measured by the Bloomberg U.S. Aggregate Bond Index) to have their worst month so far in 2022 – contributing to one of the worst years for bond market performance on record. Long duration U.S. government bonds performed particularly poorly in September, despite a further inversion of the U.S. Treasury curve.

Investment Option Commentary

Looking ahead, rapidly tightening global financial conditions, coupled with ongoing disruptions to global food and energy markets are weighing on BlackRock's outlook for growth and raising concerns about corporate profits. That said, two segments of the economy that continue to exhibit resilience are the U.S. labor market and U.S. consumer spending. Despite higher interest rates and low consumer sentiment, it remains BlackRock's view that any economic slowdown in the U.S. is likely to remain shallow, even in the face of the Fed's historically rapid interest rate hike campaign. In the short-term, the investment manager believes that a volatile market backdrop is the most likely scenario for global stocks, with earnings estimates in jeopardy as recession risks increase. In this environment, BlackRock is limiting broad asset class exposure risk and leaning into idiosyncratic risks, notably companies BlackRock believes are more likely to deliver consistent cash flows during a period of decelerating economic growth. Within equities, the manager remains underweight, with an emphasis on quality and pricing power in BlackRock's core holdings. Within fixed income, some of BlackRock's duration underweight positions were closed and added to high-quality credit earlier in the quarter. As the economy slows, government bonds possess the potential to be a partial hedge against equity volatility, notably at the front-end of the curve. Despite a slowing economic backdrop, BlackRock is finding opportunities in credit as does not anticipate a significant increase in default risk as most corporate balance sheets remain strong. In line with this cautious outlook, positioning remains underweight equities and duration (albeit less so than in prior months), with a larger balance in cash and an overweight to the US dollar to help buffer market volatility.

- Total **equity exposure** declined with market movement over the month as the team remained patient amidst market volatility and the potential for earnings estimates to be revised downward in coming months. BlackRock believes stocks will remain volatile in the upcoming months as investors digest continued monetary policy tightening and the ensuing negative impact this may have on economic growth.

- Within **sector positioning**, the investment manager holds "stable" growth, including industries such as software and healthcare services, paired with overweight positions in energy and materials, which in BlackRock's view can act as an inflation hedge. BlackRock remains cautious on both deep value and early growth companies that tend to be more volatile.

- A primary characteristic of companies BlackRock is looking for, is the ability deliver consistent cash flows - even as growth subsides. While there are idiosyncratic opportunities within all sectors, the manager is frequently finding these opportunities within the **energy infrastructure, managed care, cybersecurity, enterprise software,** and **agricultural commodity** industries.

- While BlackRock has trimmed exposure across **energy** given the significant outperformance, the manager maintains an overweight to select oil and gas transportation and refining companies.

- Within **software**, BlackRock remains underweight many of the mega-cap platform companies where valuations still look to be stretched (albeit more attractive than earlier this year). Positioning is focused on leading companies providing software as a service ("on-demand software") and data management, areas the manager believes will continue to benefit from the long-term trend towards technology enablement.

- In addition to sector positioning, the team will also invest via **thematic expressions**. Despite slowing consumption, BlackRock believes that one of the more resilient areas of consumer spend is around streaming. As a result, the Fund is overweight **select US and European tower companies** that the manager believes are positioned to benefit from the continuation of 5G adoption across developed markets and broader wireless infrastructure within emerging markets.

- Total **portfolio duration was +1.3 years** at the end of September (vs. benchmark duration of 2.5 years), down slightly from +1.8 years as of August month-end. BlackRock is **neutral on US duration**, with the underweight largely driven by an **underweight in European and Japanese** rates.

- While BlackRock thinks rates have room to move modestly higher across the U.S. Treasury curve, the manager believes that most of the rise in U.S. interest rates is likely in the past, notably at the front-end of the curve. Over the month, BlackRock **shifted exposure further in on the curve** by adjusting some of the positioning in 10-year rates to 2-year rates as the manager believes longer-term rates are more vulnerable to rate increases. This shift caused duration to come down slightly and BlackRock's weighting in fixed income to increase.

- BlackRock favours **spread assets** with exposure in a diversified basket of credit, securitized debt, and various duration hedges. The aggregate exposure of the portfolio's **off-benchmark fixed income asset classes represented ~13%** of AUM and is a key differentiator vs. traditional "60/40" portfolios.

- The team continued to emphasize **credit exposure** (~10%). With the significant back-up in yields YTD and spreads relative to Treasuries now above average, the team believes that credit is once again an attractive source of carry for the portfolio. The team has focused recent additions on **short-duration high quality companies** that would likely be less susceptible to default in the case of a mild recession.

- The portfolio maintains exposure to **securitized debt** (~2%) 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 in a rising rate environment.

- The fund has minimal exposure to **gold-related securities** (0.2% of assets). While gold can be an effective partial hedge for inflation long-term, the manager would rather increase exposure to companies with pricing power that 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 a more **efficient means to hedge equity risk** relative to duration sensitive U.S. Treasuries. Considering the current elevated level of market volatility, BlackRock's sizable cash balances also act as a **source of funding** as the manager looks to opportunistically deploy capital.

- The fund maintains a meaningful overweight to the **U.S. Dollar** (69% vs 60% for benchmark), with notable underweights to the euro (10% vs. 13% for benchmark), Chinese yuan (-1.4% vs. 0.7% for benchmark), and the Japanese Yen (7% vs. 9%). In an environment where few asset classes are likely to be effective hedges against equity market volatility, BlackRock believes an overweight position in the USD can help mitigate aggregate portfolio risk. This positioning has been beneficial YTD as the USD remains near its 20-year high against both the euro and yen.

Availability

Product name	APIR
SignatureSuper	AMP1803AU*
SignatureSuper Allocated Pension	AMP1797AU*

* Closed to new investors

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