BlackRock Global Allocation

Quarterly Investment Option Update

31 December 2022

Aim and Strategy

The option 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	53.19
Fixed Income	40	30.37
Precious Metals	0	0.21
Cash Equivalents	0	16.24

Equity Sector Allocation	%
Communication Services	3.97%
Consumer Discretionary	6.16%
Consumer Staples	2.84%
Energy	5.01%
Financials	6.06%
Healthcare	8.60%
Industrials	4.71%
Information Technology	10.76%
Materials	3.31%
Real Estate	0.50%
Utilities	1.26%
Index Related	0.00%

Portfolio Summary

Global stocks declined in December, ending 2022 on a down note and putting to rest the worst calendar year for equities since 2008's Global Financial Crisis. Global bond performance for the month was mixed. Shorter-dated bond prices were mostly stable during December, but longer-maturity bond prices were negatively impacted by data indicating continued strength in the U.S. labor market. Mid-month, the U.S. Federal Reserve approved an interest rate increase of +0.50% and signaled its intent to lift rates through the spring to combat inflation. Although the Fed's decision marked a deceleration from four consecutive increases of +0.75% beginning back in mid-June, investor concerns about the potential negative impacts that addition rate increases could have on the economy - and corporate profits – weighed on equity performance. In addition, the Bank of Japan's decision to alter its policy of "yield curve control" (YCC) also weighed on global risk assets, as the consequences of the shift encouraged Japanese investors to sell their foreign securities holdings (including U.S. Treasuries) and repatriate capital back home, further draining liquidity from global capital markets.

Investment Option Commentary

Looking ahead, BlackRock continue to make a case that despite the challenges faced in 2022, people underestimate how adaptive, innovative, and flexible the US economy can be. As a result, BlackRock believe that the U.S. will likely avoid a material economic contraction in 2023 (and may avoid a recession altogether), as the strength of the U.S. labor market should provide structural support for overall consumption. Across asset classes, within the Global Allocation Fund, BlackRock maintain a neutral view on equities in the short-term as BlackRock except U.S. Federal Reserve (Fed) policy to remain restrictive in the coming months. In this environment, BlackRock remain patient and are leaning into idiosyncratic risks with an emphasis on quality and pricing power in the fund's core holdings, notably companies BlackRock believe are more likely to deliver consistent cash flows during a period of decelerating economic growth. BlackRock's preferred exposures reflect a bias in favor of quality, GARP (growth at a reasonable price) and select areas of resources where BlackRock anticipate supply to remain constrained for the foreseeable future. BlackRock are much more constructive on fixed income as BlackRock believe the historic back-up in yields YTD represents a generational inflection point and continue to look for ways to build carry into the portfolio, notably via high quality investment grade credit and agency mortgages. While BlackRock believe the bulk of the U.S. interest rate hikes have occurred, BlackRock see continued tightening from central banks (albeit at smaller increments), and thus maintain a partial underweight to duration (notably via non-US rates). In-line with the fund's risk aware mandate, BlackRock look to balance exposure to risk assets with a diversified allocation to portfolio hedges, with a reliance on high quality carry via income yielding assets within the portfolio coupled with a balance in cash, the U.S. dollar, and derivatives.

- Total **equity exposure** decreased, driven largely by market movement, as equities were down amidst investor concern that future rate increases could have corporate earnings and risk assets. BlackRock's core positioning remained stable, as BlackRock believe equities will remain volatile, but range bound in the coming months.

- Within **sector positioning,** BlackRock have a combination of "stable" growth, including industries such as software and healthcare providers, paired with overweight positions in select natural resource companies within energy and materials, which in BlackRock's view can act as an inflation hedge. BlackRock remain cautious on both deep value and early growth companies that tend to be more volatile.

- Energy was the Fund's largest overweight (as was the case for most of 2022), with exposure tilted towards oil and gas companies that BlackRock believe to maintain pricing power in the current environment. In December BlackRock continued to build quality across the portfolio by adding to select high quality **refining and oil field services companies**, which are less directly exposed to oil and natural gas prices, have strong balance sheets and, like many energy producers, have recently allocated more cash flow generation to shareholder return.

- Consumer discretionary remains a modest overweight in the portfolio with an emphasis on **high-end luxury goods producers** who have a greater ability to pass through higher prices given higher sales and margin structures as well as affluent consumers being less directly impacted by higher inflation costs. In December

BlackRock added to select European luxury retailers on the view that a historically strong US dollar, coupled with a China reopening, could support sales heading into 2023.

- Within **derivatives**, BlackRock continue to look for opportunities to build convexity in the portfolio via options but are mindful of the premium required to gain access to equity volatility levels (though it has come down relative to recent months). Within the fixed income, BlackRock believe the current implied volatility in the market is too high and will likely come down in coming as the Fed gets closer to a pause in the tightening cycle and sold **swaption strangle strategies** as a way generate premium. In the current higher rate environment, BlackRock are leaning towards high quality carry as an alternative source for convexity.

- Total **portfolio duration remained at 1.6 years** vs. benchmark duration of 2.4 years. BlackRock are **neutral on US duration**, with the underweight largely driven by an **underweight in European and Japanese** rates.

- While BlackRock's **concentration in US rates remains in the front end** of the treasury curve (notably 2-year) where BlackRock believe that most of the rise in rates at that point of the curve has likely occurred, BlackRock's positioning along the curve evolved in recent months as BlackRock added to the 10-year point to a modest overweight on the view that as rate volatility recedes there is greater potential for longer-dates treasuries to act as an equity hedge. In December, BlackRock **modestly reduced underweight at the 3-year point** of the curve as the team added carry across the portfolio.

- BlackRock favor **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 ~20%** of AUM and is a key differentiator vs. traditional "60/40" portfolios.

- The team continued to emphasize **credit exposure** (~11%). With the significant back-up in yields YTD and spreads relative to Treasuries now above average, the team believes that credit is an attractive source of carry for the portfolio. The team has focused exposure on **short-duration high quality companies** that would likely be less susceptible to default in the case of a mild recession.

- BlackRock maintain ~5% exposure to **agency residential mortgage-backed securities (RMBS)** as an additional source of carry on the expectation that the pace of rate increases is likely to decline from here. Historically, mortgages tend to underperform when rate volatility is high (greater default risk in a rising rate environment and prepayment risk in falling rate environment). As rate volatility stabilizes, BlackRock are finding more opportunities in this space.

- BlackRock have minimal exposure to **gold-related securities** (0.2% of assets). While gold can be an effective partial hedge for inflation long-term, BlackRock would rather increase exposure to companies with pricing power who can raise prices as inputs costs rise, as a hedge against near-term inflation.

- BlackRock's cash positioning decreased over the month as BlackRock deployed capital within fixed income positioning. While lower, BlackRock are maintaining a balance to cash equivalents, as BlackRock believe cash to be **efficient means to hedge equity risk**.

- BlackRock have neutralized their overweight exposure in the **U.S. Dollar** by roughly ~600 bps in recent months (62% vs. 60% benchmark), as BlackRock believe the U.S. is further along in its tightening cycle than other countries. As BlackRock have reduced exposure to the USD, BlackRock decreased underweights to the euro and JPY and added to select EM currencies, notably the Mexican peso, where BlackRock believe central banks may continue to raise rates, thereby decreasing the interest differential with the USD.

Availability

Product name	APIR
SignatureSuper	AMP1803AU*
SignatureSuper Allocated Pension	AMP1797AU*

* Closed to new investors

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