BlackRock Global Allocation

Quarterly Investment Option Update

30 June 2021

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.

Investment Option Performance

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

Investment Option Overview

Investment Category	Multi Sector
Suggested Investment timeframe	5 years
Relative risk rating	5 / Medium to high
Investment style	Specialist
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Equities	60	71.39
Fixed Income	40	18.21
Precious Metals	0	0.10
Cash Equivalents	0	10.30

Equity Sector Allocation	%
Communication Services	6.49%
Consumer Discretionary	10.83%
Consumer Staples	2.12%
Energy	3.37%
Financials	9.16%
Healthcare	8.71%
Industrials	8.62%
Information Technology	14.11%
Materials	4.90%
Real Estate	0.86%
Utilities	2.16%
Index Related	0.06%

Portfolio Summary

Global stocks posted their fifth consecutive monthly gain during June, paced by U.S. equity markets, as investors largely shrugged of higher than expected inflation data and statements by the U.S. Federal Reserve that that the U.S. central bank anticipates raising the federal funds rate sooner than expected. U.S. Technology stocks, as measured by the U.S. Technology Select Sector Index, outperformed all other sectors during June, with a return of +7.0%. However, returns across most major international equity indexes, including Europe, China, and Japan finished lower during the month (in U.S. dollar terms), weighed down by a U.S. dollar that strengthened after the Fed expressed its amended view regarding the timing of rate increases. Despite the release of additional above-consensus inflation data and comments from the Fed that hinted at faster than expected rate increases, most U.S. bond indexes advanced during the month. Developed market international bonds generally fell during the month, as an appreciating U.S. dollar weighed on total returns for the asset class.

Across all major asset class, BlackRock continue to believe that equities offer investors the best risk-reward opportunities. The manager remains overweight stocks due to four key considerations: very accommodative monetary conditions, especially against the backdrop of historically strong U.S. economic performance, a healthy U.S. consumer, best exemplified by solid household balance sheets and a robust job market, improving U.S. corporate profit expectations, and the likelihood of additional stimulus. BlackRock believe that these factors combined will help keep U.S. economic growth well above post-Global Financial Crisis levels into 2022 and possibly beyond. Within equities, the manager continues to emphasize cyclically oriented stocks. Importantly, BlackRock have preferred to focus on those stocks that are not only economically sensitive, but which also have tended to generate above average levels of cash flow. Cyclical exposure remains balanced with a strategic allocation towards secular growth, particularly within Consumer Discretionary, Technology, and Healthcare. Within fixed income, despite the short-term rally driven by market technicals and the immense amount of liquidity in the system (notably from the drawdown of the Treasury General Account, “TGA”), the manager believes that well-above average U.S. economic growth, coupled with the decline of the TGA and an increase in Treasury bond issuance, is likely to cause real interest rates to rise in the second half of the year. As a result, BlackRock remain significantly underweight developed market government bonds, particularly in higher quality, duration sensitive segments, such as government bonds, agency mortgages, and investment grade bonds. Our preference is to keep most of the fixed income exposure in less duration sensitive assets, such as high yield, securitized assets, and emerging market debt. In-line with the fund’s risk aware mandate, the manager looks to balance exposure to risk assets with portfolio hedges, expressed through an increasing reliance on cash and derivatives given diminished efficacy of traditional hedges such as duration and gold in the current environment.

Investment Option Commentary

- From a regional perspective, The portfolio is **overweight Europe and to a lesser extent, China and the U.S.** BlackRock is favorable on Europe given the expectation that accelerating vaccine distribution could be a catalyst for growth, shown recently with improving manufacturing data, coupled with a higher cyclical representation than U.S. counterparts. Exposure within Europe is focused on materials and industrials, with an emphasis on quality.

- From a style perspective BlackRock prefer **quality and GARP** given the historical resilience regardless of macro regime, a characteristic that could bode well during periods of uncertain inflation expectations and style rotations.

- Consumer discretionary remains the largest overweight due to BlackRock’s expectations for long-term, above-average, growth potential in this sector. While the sector has performed well YTD, it has trailed the market. The manager used this as an opportunity to increase exposure to select **European auto companies** and **US retailers and services**.

- Within **energy**, BlackRock tactically added exposure in the U.S., focusing on names linked to commodity prices. This positioning not only reflects our cyclical tilt but also acts as a potential hedge to an upside inflation surprise.

- Within financials, while BlackRock remain overweight European banks, the manager reduced exposure to select **US banks** where valuations appeared stretched relative to European peers.

- Despite higher valuations across equity markets, BlackRock believe market fundamentals support further price appreciation. As such, the manager added positive convexity to the portfolio via **long call index options.** These positions augment our core fundamental equity positioning and provide the fund additional upside exposure with limited downside (premium paid) should equity markets sell-off during the period.

- BlackRock continue to believe that despite near term volatility, the timing of an eventual taper of monetary policy by the Federal Reserve should ultimately be viewed favorably by markets. The manager expects the Fed to emphasize the need for accommodation while preparing the market for a reduction in asset purchases later this year. While BlackRock believe that most of the **inflation pressures** are transitory, given bottlenecks in supply and tightness in parts of the labor market the manager expect inflation to run above the post GFC average through the remainder of the year.

- In the current environment, BlackRock is significantly underweight quality assets such as U.S. Treasuries, and agency mortgages. Total portfolio duration was +**0.2 years**, down from +0.4 years as of May month-end and a significant underweight relative to a benchmark duration of 2.70 years.

- Given the significant underweight to U.S. rates, BlackRock used **interest rate swaptions** as a partial hedge with exposure to interest rate receivers at the back end of the yield curve balanced by interest rate payers in the middle of the curve. While the manager believe that rates are likely headed higher (and are positioned accordingly), this strategy would help protect against a materially flatter yield curve should a risk-off environment occur.

- BlackRock continue to prefer **spread assets** with exposure in a diversified basket of credit, EM sovereigns and securitized debt. The aggregate exposure of these **off-benchmark fixed income asset classes currently exceeds ~10%** of AUM and is a key differentiator vs. more traditional “60/40” portfolios.

- Within credit, most of the exposure is in **U.S. high yield** which has historically been less sensitive to duration risk as compared to investment grade debt. However, given tight spreads, the manager trimmed our weighting as it reallocated exposure across high quality equities.

- BalackRock added exposure to **securitized debt** as they believe the asset class offers attractive carry and total return potential relative to other fixed income assets. Furthermore, this exposure has tended to be less sensitive to interest rates in the past, which could bode well in a rising rate environment.

- Within **emerging markets**, exposure remains diversified with an emphasis on select countries, notably Chinese government bonds**,** and in Latin America which the manager believe offer stability with potential for yield and/or spread compression.

- BlackRock maintain minimal exposure to **gold-related securities** (0.1% of assets) given their expectation for strong economic growth, an increase in real interest rates, and a stronger USD. They’ve rotated into other portfolio hedges such as cash and derivatives that we feel provide ample diversification benefits in the current environment.

- Given the current environment, BlackRock maintain exposure to cash equivalents as they believe it to be a more **efficient means to hedge equity risk** compared to short- and intermediate-term U.S. Treasuries. The manager also hold cash as a **source of funding** as they look to opportunistically deploy capital.

- Positioning in the **U.S. Dollar** increased from 60% to 65% over the month. This was largely driven by market movement given the appreciation relative to other currencies following the Fed comments on sooner than expected rate increases.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1815AU
AMP Flexible Super - Retirement account	AMP1785AU
AMP Flexible Super - Super account	AMP1791AU
CustomSuper	AMP1815AU
Flexible Lifetime - Allocated Pension	AMP1809AU
SignatureSuper	AMP1803AU
SignatureSuper Allocated Pension	AMP1797AU

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