BlackRock Global Allocation

Quarterly Investment Option Update

31 December 2021

Aim and Strategy

The Fund aims to maximise capital growth and investment income returns by investing in global shares, fixed income and cash.

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.

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	68.17
Fixed Income	40	19.90
Precious Metals	0	0.24
Cash Equivalents	0	11.69

Equity Sector Allocation	%
Communication Services	5.86%
Consumer Discretionary	10.07%
Consumer Staples	2.08%
Energy	3.58%
Financials	7.37%
Healthcare	9.66%
Industrials	7.74%
Information Technology	14.82%
Materials	4.32%
Real Estate	1.00%
Utilities	1.64%
Index Related	0.03%

Portfolio Summary

Global stocks finished 2021 strong, as investors around the world put aside immediate concerns about the contagiousness of the Omicron variant and evolving global central bank policy, and instead decided to embrace risk assets as the year headed toward its close. Despite another month of elevated inflation prints, market participants chose to selectively focus their attention on the strength of the U.S. jobs market, where initial jobless claims reported for the month of November hovered near 50-year lows. European stocks, as represented by the MSCI Europe Index, posted some of the best returns during December's rally, despite elevated risks of lockdowns across portions of the continent. Within fixed income, high quality bonds such as U.S. Treasuries, U.S. investment grade bonds, and International Sovereigns experienced losses, while more aggressive sectors across global credit markets, including U.S. high yield bonds and Emerging Market Sovereigns, enjoyed gains, as investors sought out riskier asset classes, perhaps as a hedge against stubbornly high inflation. The only higher quality bond sector to enjoy gains in December was U.S. municipal bonds, due largely to seasonal effects characterized by low issuance.

Investment Option Commentary

- Looking ahead, BlackRock believe sector positioning will be key in an economy that while still growing at above trend levels, is likely to decelerate in 2022. Within equities, positioning reflects a barbell approach with exposure to **secular growth areas** particularly in consumer discretionary, healthcare, and key segments of the technology sector, balanced with **quality cyclical** exposure that would benefit from a continued recovery in the economy and may also continue to benefit from rising input costs, including energy, materials, and select industrials.

- BlackRock remain **underweight** "defensive" sectors, notably Consumer Staples and REITs as a continued rise in interest rates could cause these slower growing, less economically sensitive sectors to lag the broader market.

- Over the month, BlackRock took advantage of market volatility and added to **secular growth** via select **technology companies and US retailers** that are well positioned to benefit from a strong US consumer. Despite some deceleration in spending on services, notably in travel & leisure over the near-term as COVID cases remain elevated, fundamentals of households remain incredibly strong with record wealth, record low debt servicing costs, still elevated savings, and a quickly healing labor market. This suggests that even if service spending dips, goods spending is likely to hold up.

- Added exposure to **select Japanese industrials** to take advantage of the potential for a sustained increase in corporate capital expenditures, including on robotics and automation. Despite this tactical positioning, BlackRock remain underweight Japan given structural headwinds.

- Within derivatives, the investment manager **covered short call options on individual securities** of existing positioning in the prior month to harvest gains while also maintaining **long call positions via index options** on US equities to increase potential upside exposure.

- BlackRock is mindful of **inflationary risks** associated with supply chain disruptions and higher wages; accordingly, above average levels of price increases are anticipated into the first half of 2022. That said, the manager does not think there will be a return of the double-digit annual inflation environment experienced in the 1970's as much of the base effects and some easing of supply chains will be enough to send inflation back below 3% by the end of next year.

- In the current environment, the fund is significantly underweight quality fixed income assets such as U.S. Treasuries and developed market sovereigns. Total portfolio duration was **+0.5 years** as of December month-end, a significant underweight relative to a benchmark duration of 2.7 years.

- Further reduced exposure to **US banks** over the month. As rates have historically been a leading indicator for banks, a sustained rally in this sector will be difficult in an environment where bond yields remain suppressed.

- Within **derivatives**, the portfolio's positive convexity was allowed to decrease via a **reduction in exposure to long call index options** to align with our more cautious near-term positioning in equities.

- Despite BlackRock's belief that most **inflation pressures** will prove to be transitory; high consumer demand, supply bottlenecks and a strong housing market will likely keep inflation above the post GFC average for the next several quarters. Longer term, aging demographics and technology adoption should continue keep inflation contained. The investment manager believes the Fed should adjust monetary policy away from emergency conditions, as overly easy monetary policies are now contributing to distortions across the economy and financial markets.

- In the current environment, the fund is significantly underweight quality assets such as U.S. Treasuries and developed market sovereigns. Total portfolio duration was **+0.8 years**, a slight decrease from 1.0 years as of August month-end, and a significant underweight relative to a benchmark duration of 2.7 years. While market liquidity and demand for yield is likely to prevent a major backup in rates, BlackRock remain underweight duration, anticipating normalization of real rates as the Fed commences tapering later this year.

- The investment manager continues to emphasize **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 represented ~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.

- BlackRock continue to favor **securitized debt** as it 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.

- Within **emerging markets**, exposure is diversified within select markets, notably in Latin America and Chinese government bonds, which offer stability with potential for yield and/or spread compression.

- The fund has minimal exposure to **gold-related securities** (0.2% of assets) given the expectation for strong economic growth, an increase in real interest rates, and a strong USD. While gold can be an effective partial hedge for inflation long-term, the fund has a preference for increasing exposure to companies with pricing power as a hedge against near-term inflation.

- Given the current environment, the fund maintains exposure to cash equivalents as a more **efficient means to hedge equity risk** compared to short- and intermediate-term U.S. Treasuries. The fund also holds cash as a **source of funding** that can be opportunistically deployed.

- Overweight to the **U.S. Dollar** (69% as of month-end). Over the month, the overweight decreased slightly via market movement as the euro appreciated.

Availability

Product name	APIR
SignatureSuper	AMP1803AU*
SignatureSuper Allocated Pension	AMP1797AU*

*Closed to new investors

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