BLACKROCK®

FUND UPDATE

BlackRock Australian Bond Fund

MAR 2021

Investment Performance (%)

	Fund Inception	1Mth	3 Mths	CYTD	1Yr	3 Yrs	5 Yrs	Inc
BlackRock Australian Bond Fund (Gross of Fees)	31-Oct-97	0.77	-3.09	-3.09	2.42	5.60	4.70	5.97
Bloomberg AusBond Composite Index℠ (Gross of Fees)		0.80	-3.22	-3.22	-1.81	3.98	3.46	5.62
Outperformance (Gross of Fees)		-0.03	0.13	0.13	4.23	1.63	1.25	0.36

Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised. Performance is calculated in Australian dollars and assumes reinvestment of distributions. Gross performance is calculated gross of ongoing fees and expenses. Gross returns are provided for products offered to wholesale clients only who may be subject to differential fees. Please refer to the Fund's product disclosure statement for more information.

Market Review

The Bloomberg AusBond Composite Index (the "Index") returned 0.80% in March. Treasuries (0.98%) was the top performing sub-component followed by Semi-Govt (0.81%), Supra-Sovereigns (0.25%) and Credit (0.19%).

The Index added A$17.9bn of new supply (issuances and taps). The largest contributors were Treasuries at A$8.0bn followed by Semi Government issuers at A$4.6bn and Non-Government issuers at A$5.3bn. The market capitalisation of the Index now stands at A$1,396.2bn vs. A$1,368.9bn the prior month. Fourteen new issues were added to the Composite Index amounting to A$4.9bn, which leaves A$13.0bn in taps.

Australian 2-year bond yields fell 0.03% over the month to 0.09%, while 10-year yields decreased 0.13% to 1.79%.

As expected, the RBA left its policy settings unchanged at the March Board Meeting, leaving left the cash rate, YCC target and the rate on the TFF at 0.1%. Notably, the RBA has left the door open to even more QE highlighting "…a further $100 billion will be purchased following the completion of the initial program and the Bank is prepared to do more if that is necessary." The likelihood of a rate hike any time soon remains extremely remote "… the Board will not increase the cash rate until actual inflation is sustainably within the 2% to 3% target range". And, "…the Board does not expect these conditions to be met until 2024 at the earliest".

On the economic outlook, the bank reaffirmed its base case scenario with GDP forecast to grow by 3.5% over 2021 and 2022. The unemployment rate will still be around 6% at the end of 2021 and 5.5% at the end of 2022, while inflation is expected to remain at 1.25% over 2021 and 1.5% over 2022. Governor Lowe also pushed back on the markets expectations of the next rate hike coming before 2024 suggesting "…over the past couple of weeks, market pricing has implied an expectation of possible increases in the cash rate as early as late next year and then again in 2023. This is not an expectation that we share."

Domestic economic data was strong over the month with 88,700 new jobs created. This saw the unemployment rate fall from 6.3% to 5.8%. The participation rate remained steady at 66.1%. GDP for Q4 grew by 3.1%, which was 0.6% better than expected. Both business conditions and business confidence improved as the NAB business conditions survey scored 15, a rise of 8 points, while the NAB business confidence survey increased by 6 points to 16. Consumer confidence also improved with the Westpac consumer confidence survey recording a rise of 2.6% to 111.8. The trade balance delivered a A$10.1bn surplus, well ahead of the expected A$7.5bn. The negatives over the month were retail sales, falling by -1.1%, vs. a forecast of 0.6% and building approvals, which fell by -19.4%, significantly worse than the expected -2%.

In the U.S., 2-year treasury yields rose 0.03% over the month to 0.16%, while the 10-year yield rose 0.34% to 1.74%.

The Fed kept the fed funds rate unchanged as expected while maintaining their pace of bond purchases at USD $120bn/month, noting that this will continue until "substantial further progress" is seen in the economy. The meeting minutes reconfirmed the Fed's willingness to maintain a highly accommodative stance of monetary policy for the foreseeable future. However, the meeting also revealed 7 of 18 participants did not think keeping the target policy range unchanged for three more years was appropriate. We think that eventually tapering at the front-end of the yield curve is more likely as letting front-end rates move marginally higher can have real benefits to savings for consumers and investors, while keeping long-end rates reasonably contained (somewhat higher) may also benefit consumers and corporations via low financing costs.

US economic data was broadly stronger over the month with final Q4 GDP increasing by 4.3%, vs. a forecast of 4.1%. Non-farm payrolls saw 379,000 jobs created, well above the forecasted 200,000. This sent the unemployment rate down 0.1% to 6.2%. CPI increased by 0.4%, in line with expectations and saw CPI y/y rise by 0.3% to 1.7%. Core PCE for Q4 increased by 1.3%, down 0.1% from last quarter. Personal consumption for Q4 rose 2.3%, 0.1% less than expected. Personal income in was down -7.1% in February, after a strong +10% gain in January.

Credit spreads widened over the month finishing 10bps wider on average at months end. Performance was positive despite spreads widening as yields decreased. All sectors recorded a positive return with financials returning 0.19%, industrials 0.15% and utilities 0.05%. YTD total A$ issuance across financials has reached A$11.95n, which is A$1bn less than at the same period last year. Of that, major bank issuance made up A$3.83bn. YTD issuances for Non-Financial is A$3.2bn.

The Bloomberg AusBond Composite 0+ Yr Index returned 0.80% in March for a 12 month return -1.81%

The Bloomberg AusBond Bank Bill Index returned 0.00% in March for a 12 month return of 0.11%.

Portfolio commentary

In March, the Bloomberg AusBond Composite Index returned 0.80%, for a 12 month return of -1.81%. Performance of Australian government bonds delivered positive returns in March, with the 3yr government bond yield remaining unchanged at 0.12%, while the 10yr fell 13bps from 1.92% to 1.79%. As expected, the RBA held their cash rate and yield curve control (YCC) targets at 0.10%. RBA Governor Lowe delivered a speech at the Australian Financial Review Summit in which despite noting the stronger global outlook underpinned by vaccine developments and the recent pickup in yields, the underlying tone of this speech was unambiguously dovish. With a key point to note being, YCC will be in place until at least April 2024. The Fed kept the fed funds rate unchanged as expected while maintaining their pace of bond purchases at USD $120bn/month, noting that this will continue until "substantial further progress" is seen in the economy.

The fund underperformed the benchmark by 3bps over the month. Our allocation to inflation linked bonds and our positions in duration performed well for the fund, while our overweight positions in credit detracted slightly.

Market and Outlook commentary

With domestic data strengthening and RBA Governor Lowe pouring cold water on any chance of an early than expected rate hike, markets had a chance to recalibrate. A beneficiary of the RBA's reluctance to hike has been Australian residential house prices which continue to surge. As a foretaste of what we could experience here, the New Zealand Government recently announced a raft of measures to cool their housing market – most important of which is removing investors' ability to deduct borrowing costs from their taxable incomes. The vaccine rollout in Australia has been slower than expected, with around 600,000 doses (~2.5% of the population) having been administered, well-below what was needed to achieve the Government's initial guidance of 4 million doses by the end of April (which has since been dropped). The recent snap lockdown in Brisbane underscores the downside risks to the macro outlook before widespread immunity is achieved and until such time COVID will remain a risk to the economy.

Markets took all of this in good stride and despite some range bound volatility in bond and equity markets, both ended the month with positive returns.

Globally, focus was on US President Biden's US$1.9 trillion stimulus plan and US$2.3 trillion infrastructure package. This helped set the tone in financial markets to one of a renewed sense of optimism about global growth, albeit differentiated between countries and regions, and raised expectations about a pickup in inflation. This has been most pronounced in the US where government bond yields continued to rise, and the US dollar strengthened. The overall positive risk sentiment continues to be driven principally by the rollout of vaccines and the related anticipated easing of lockdown measures going into the second quarter, while the policy backdrop remains still very supportive from both central banks and governments. Having said this, COVID still remains a serious problem in many countries and there does not appear to be a definitive timetable of when things will return to normal for all countries.

About the Fund

Investment Objective

The Fund aims to capture returns superior to those available from the Fund's benchmark (the Bloomberg AusBond Composite Index[SM]) by accessing a broad array of value-enhancing strategies.

Fund Strategy

The Fund is actively managed within a rigorous risk management framework. The Fund's portfolio is continually monitored and where necessary adjusted to suit changing economic and market conditions. Great importance is placed on research and a team based approach to making investment decisions.

The investment process is focused on accessing the best ideas of our local and global fixed income teams. The teams seek to add value by managing duration, yield curve, credit, individual security, country and currency exposures against the Fund's benchmark. In seeking to access a broad array of value enhancing strategies, the team uses proprietary research-based knowledge and fundamental macro-economic and credit analysis.

Fund Strategy (cont.)

The management of risk is central to our investment process. Our investment team reviews the Fund's exposures on an ongoing basis to ensure the Fund maintains a risk/reward profile appropriate to changing market conditions and the degree of confidence we have in our return expectations. Should be considered by investors who …

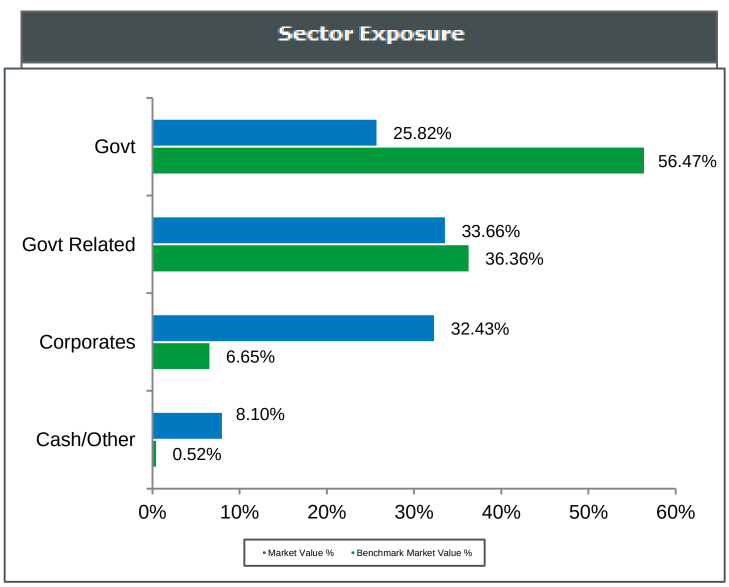
- Seek a broad exposure to Australian bonds.
- Have a long term investment horizon.

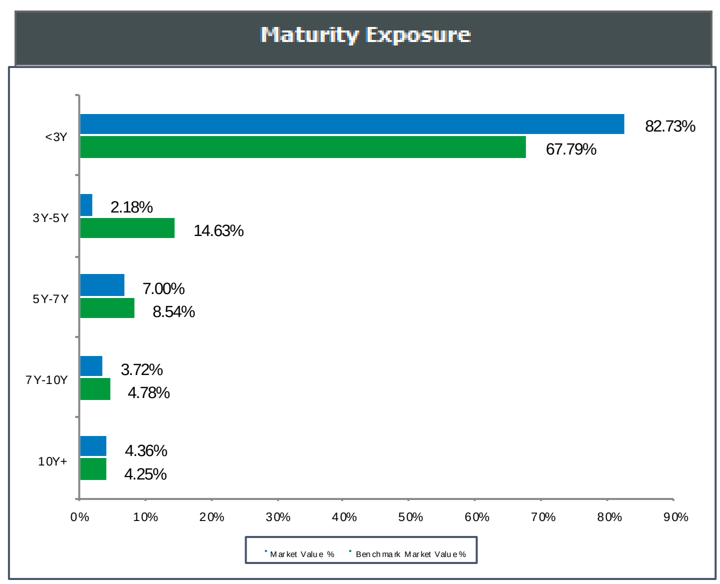
Fund Details

BlackRock Australian Bond Fund	
APIR	N/A
Fund Size	26 mil
Buy/Sell Spread	0.05% / 0.05%
Tracking Error (3 Years p.a.)	1.92%

Risk Characteristics

	Portfolio %	Benchmark %	Difference %
Modified Duration (Years)	6.15	5.84	0.31
Duration x Spread	0.92	0.58	0.34
Yield	1.25	1.14	0.10
Average Maturity (Years)	6.23	6.67	-0.44





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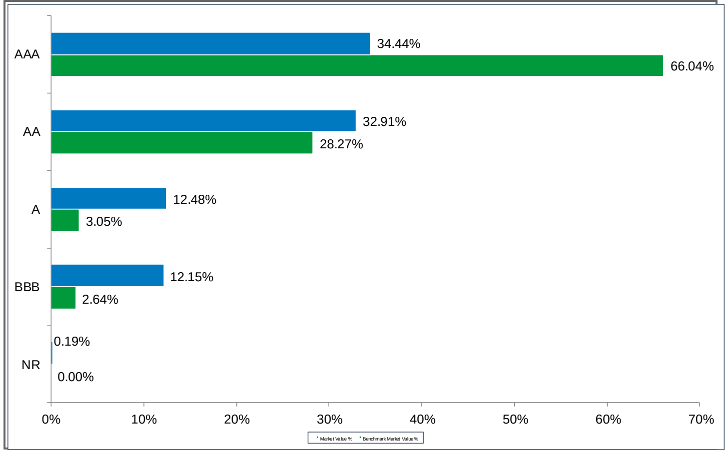

Contribution to Modified Duration