BLACKROCK®

FUND UPDATE

BlackRock Enhanced Australian Bond Fund

Mar 2021

Investment Performance (%)

	Fund Inception	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Enhanced Australian Bond Fund (Gross of Fees)	26-Mar-02	0.73	-3.26	-3.26	-0.93	4.30	3.87	5.93
Bloomberg AusBond Composite Index[SM] (Gross of Fees)		0.80	-3.22	-3.22	-1.81	3.98	3.46	5.60
Outperformance (Gross of Fees)		-0.07	-0.04	-0.04	0.88	0.32	0.41	0.34

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.

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

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.

Portfolio Commentary

The fund returned 0.73% in March, underperforming the benchmark by 7bps. Sector allocation detracted 6bps to active return, while stock selection detracted 1bp. The contribution from our long inflation breakeven position was flat for the month. The fund's duration remained in line with the benchmark over the period. The benchmark's duration-times-spread (DTS*) increased by 0.07% to 0.78% m-o-m, while the fund's active credit spread beta increased by 0.05% to 0.70%.

Sector composition remained stable over the month. 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.

Australian credit, while delivering positive returns, was the worst performing sector in March as credit spreads were wider over the month. Credit spreads finished the month 10bps wider on average, with financials out-performing non-financials.

Financials were the best performing subsector returning +0.19%, this was followed by industrials (+0.15%) and utilities (+0.05%). Supply picked up over the month as several Australian and International banks came to market, while non-financials were also very active. Three of the four major banks have now issued since the start of the year with the NAB the only major yet to come to market. Across rating buckets, AAA rated bonds were the top performing sector, returning +0.30% for the month. This was followed by A rated bonds with +0.19%, then AA's and BBB's both returned +0.15%.

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

About the Fund

Investment Objective

The Fund aims to outperform the Bloomberg AusBond Composite IndexSM before fees over rolling three-year periods, while maintaining a similar level of risk as its benchmark.
Fund Strategy
The strategy takes active positions on the yield curve, sector allocation and stock selection. The main contributor to performance is expected to be through yield curve positioning followed by sector and stock selection. Fundamental and market investment insights are systematically used to determine our yield-curve positions. We strategically tilt the portfolio towards short-maturity credit due to the excess return premium per unit of risk incurred compared with traditional government and semi-government debt securities. The credit portion of the portfolio is weighted towards those sectors (industries) and stocks that are expected to outperform over the economic cycle.

Fund Strategy (cont.)

Should be considered by investors who …

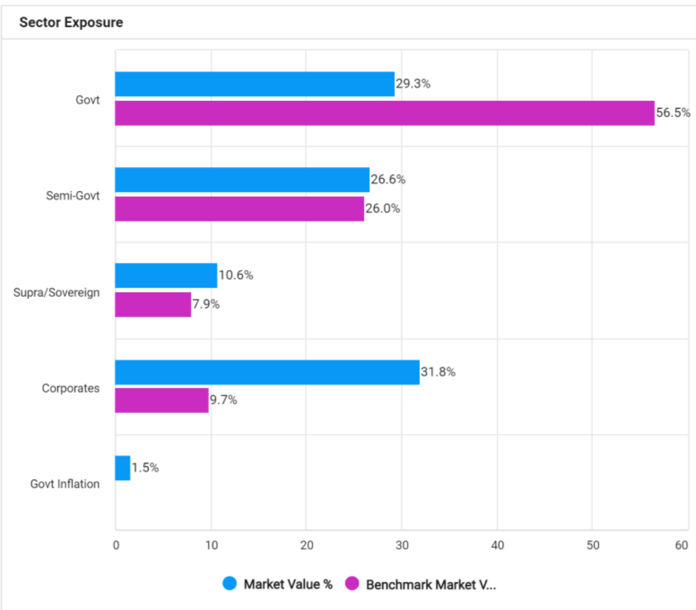
- Seek a broad exposure to Australian bonds.
- Have a long term investment horizon.

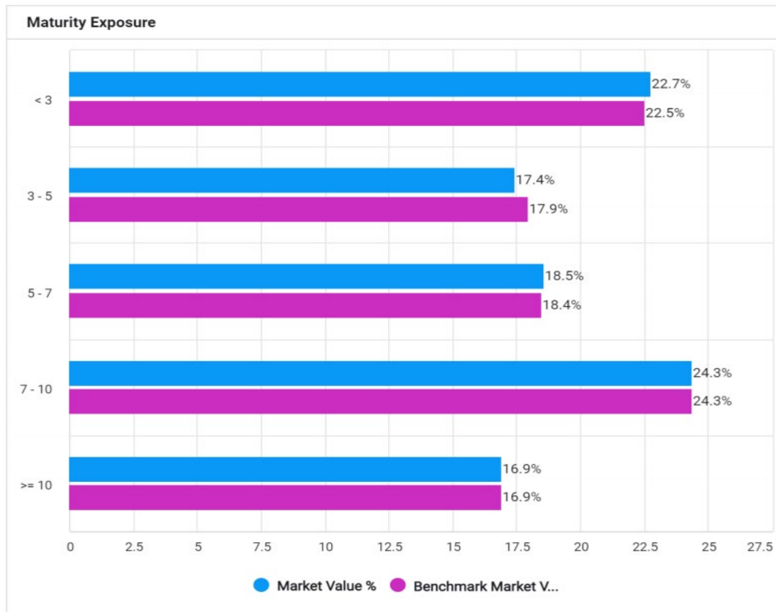
Fund Details

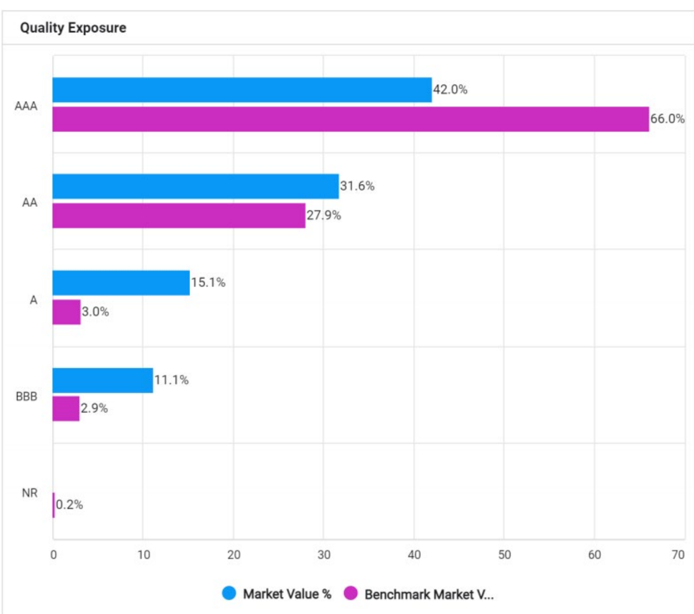
BlackRock Enhanced Australian Bond Fund	
APIR	BGL0060AU
Fund Size	515 mil
Buy/Sell Spread	0.05% / 0.12%
Tracking Error (3 Years p.a.)	0.33%

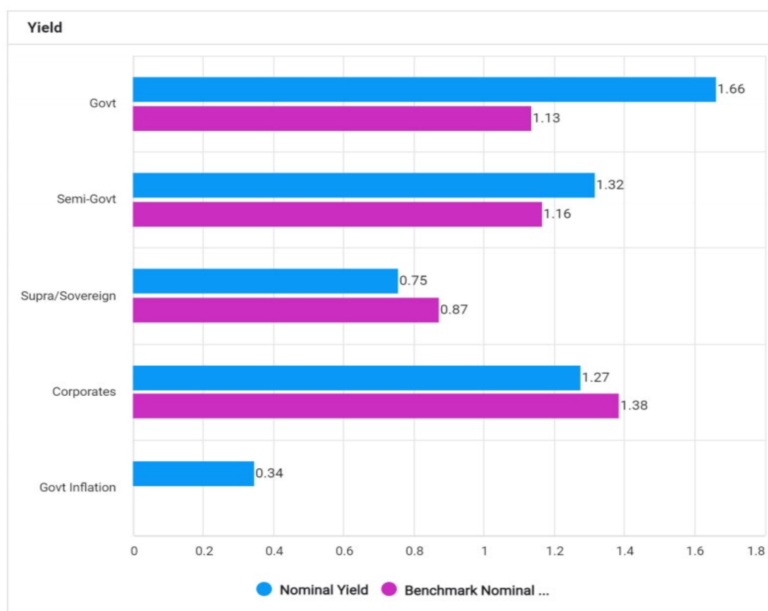
Risk Characteristics

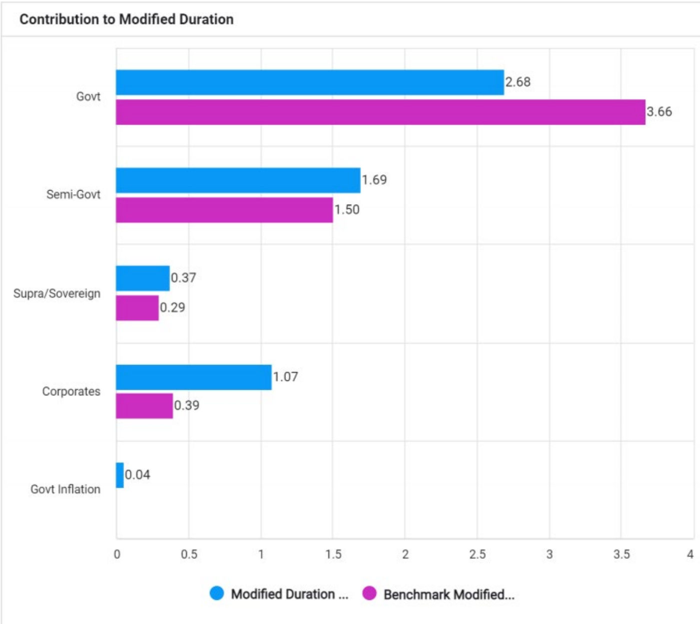
	Portfolio %	Benchmark %	Difference %
Modified Duration (Years)	5.85	5.84	0.01
Duration x Spread	1.48	0.78	0.70
Yield	1.33	1.14	0.18
Average Coupon	3.01	2.99	0.02
Average Maturity (Years)	6.71	6.66	0.04

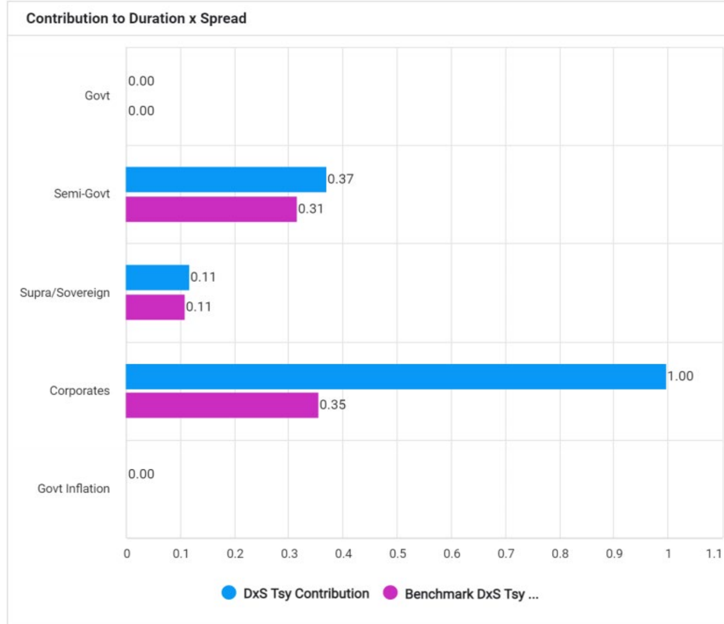


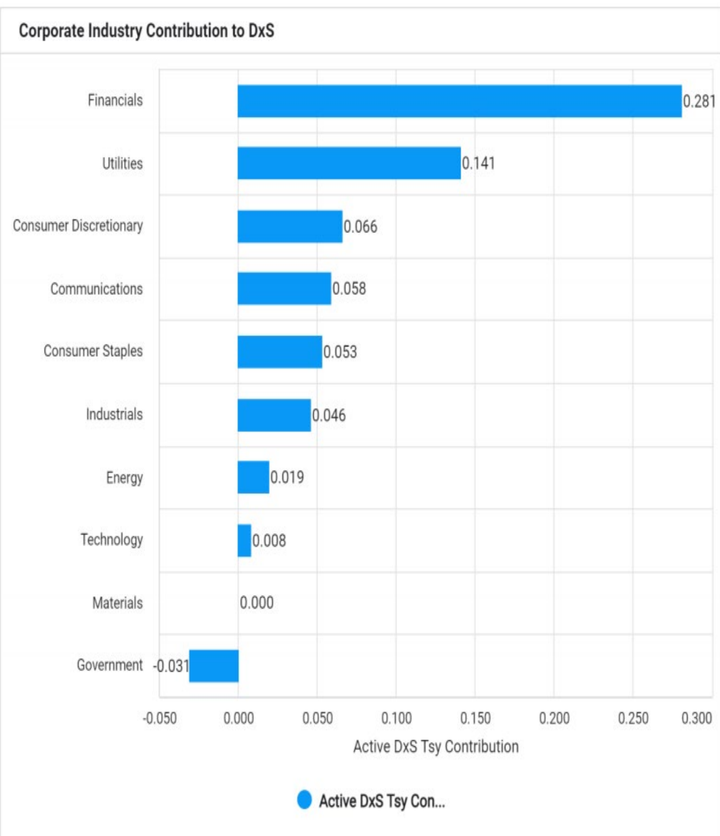


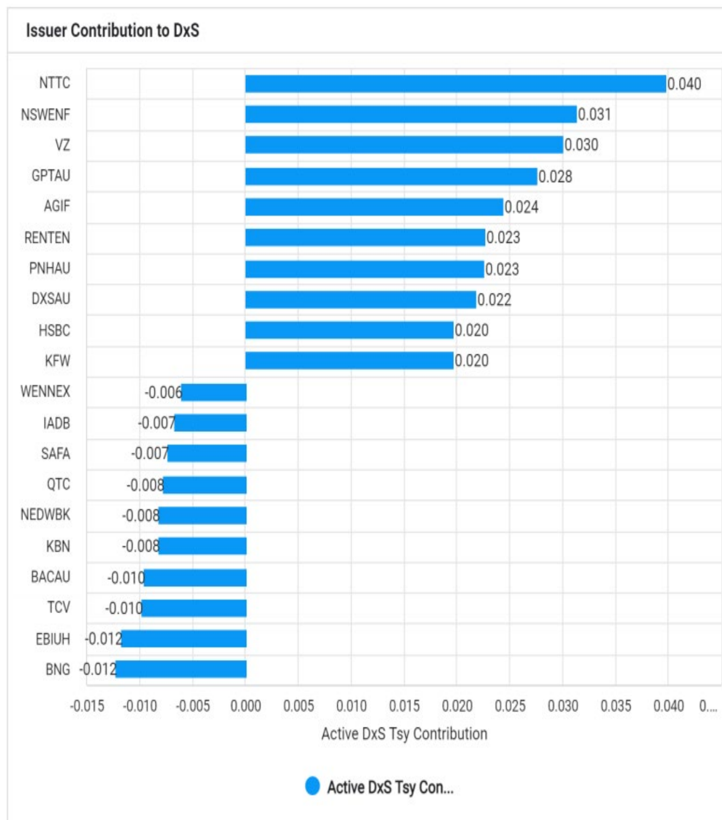





Contribution to Modified Duration
Govt
2.68
3.66
Semi-Govt
1.69
1.50
Supra/Sovereign
0.37
0.29
Corporates
1.07
0.39
Govt Inflation
0.04
0 0.5 1 1.5 2 2.5 3 3.5 4
Modified Duration ...
Benchmark Modified...


Contribution to Duration x Spread
Govt
0.00
0.00
Semi-Govt
0.37
0.31
Supra/Sovereign
0.11
0.11
Corporates
1.00
0.35
Govt Inflation
0.00
0 0.1 0.2 0.3 0.4 0.5 0.6 0.7 0.8 0.9 1 1.1
DxS Tsy Contribution
Benchmark DxS Tsy ...


Corporate Industry Contribution to DxS
Financials 0.281
Utilities 0.141
Consumer Discretionary 0.066
Communications 0.058
Consumer Staples 0.053
Industrials 0.046
Energy 0.019
Technology 0.008
Materials 0.000
Government -0.031
-0.050 0.000 0.050 0.100 0.150 0.200 0.250 0.300
Active DxS Tsy Contribution
Active DxS Tsy Con...


Issuer Contribution to DxS
NTTC 0.040
NSWENF 0.031
VZ 0.030
GPTAU 0.028
AGIF 0.024
RENTEN 0.023
PNHAU 0.023
DXSAU 0.022
HSBC 0.020
KFW 0.020
WENNEX -0.006
IADB -0.007
SAFA -0.007
QTC -0.008
NEDWBK -0.008
KBN -0.008
BACAU -0.010
TCV -0.010
EBIUH -0.012
BNG -0.012
-0.015 -0.010 -0.005 0.000 0.005 0.010 0.015 0.020 0.025 0.030 0.035 0.040 0...
Active DxS Tsy Contribution
Active DxS Tsy Con...