BLACKROCK®

FUND UPDATE

BlackRock Enhanced Cash Fund

Mar 2021

Investment Performance (%)

	Fund Inception	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Enhanced Cash Fund (Gross of Fees)	7-Mar-01	0.03	0.07	0.07	0.72	1.57	1.90	4.25
Bloomberg AusBond Bank Bill Index[SM] (Gross of Fees)		0.00	0.00	0.00	0.11	1.12	1.40	3.87
Outperformance (Gross of Fees)		0.02	0.06	0.06	0.61	0.45	0.50	0.37

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

Portfolio commentary

The fund maintained a long duration position over the month. The yield curve steepened over the month with 30-day bank bills remaining at 0.01%, while 90-day bank bills increased by 0.01% to 0.04%, and 180-day bank bills rose 0.03% to 0.09%. The average yield on the benchmark increased by 0.01% to 0.03% in March. The average yield on the fund ended the month at 0.29%. Sector composition remained stable over the month. Commercial paper continues to offer attractive margins over bank bills of around 0.15% to 0.30% and we continued to roll-over selected maturities in this sector. Three of the four major banks have now come to market as ANZ raised A$1.8bn over the month, while CBA raised A$1.18bn. The RBA’s Term Funding Facility remains in place until at least June 2021 and banks remain flush with cash. The fund’s investments outperformed the benchmark over the period.

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

- Utilise duration, yield curve and credit strategies to generate an attractive return consistent with a diversified, professionally managed portfolio of quality Australian short-term money market securities.
- Provide investors with investment security, high levels of liquidity and maximum flexibility in dealing with their investments.
- Outperform its benchmark, the Bloomberg AusBond Bank Bill Index[SM], by 40-50 basis points p.a. (before fees).

Fund Strategy

BlackRock believes that superior investment performance results from an active management approach based on a clear view of the fundamental forces that drive interest rate and credit markets. We utilise research-based knowledge, fundamental credit analysis and the requisite skill base to access diverse opportunities, together with a disciplined approach to risk management to enhance value through duration and credit management.

Fund Details

Should be considered by investors who …

- Seek lower volatility in the capital value of the investment and modest capital growth.
- Seek a regular monthly income.

BlackRock Enhanced Cash Fund	
Fund Size	191 mil
Buy/Sell Spread	0.00% / 0.00%

Credit Rating Breakdown

Credit Rating	Weight %
P1/A1+	37.18
P1/A1	22.45
P2/A2	16.19
AAA/Aaa	0.03
AA/Aa	10.54
A/A	10.16
BBB/Baa	3.47
NR	-0.02

Sector Exposure

Sector	Weight %
Asset Backed Commercial Paper	0.00
Bank Bills	61.10
Term Deposits	5.26
MBS	0.03
FRN Banks	13.61
FRN Financials	4.25
FRN CMBS	0.00
FRN ABS	0.00
Other	7.51
Cash	8.24