

BlackRock Enhanced Cash Fund

Dec 2020

Investment Performance (%)

	Fund Inception	1M th	3 Mths	CYTD	1Yr	3 Yrs	5 Yrs	Inc
BlackRock Enhanced Cash Fund (Gross of Fees)	7-Mar-01	0.03	0.18	0.92	0.92	1.72	2.01	4.30
Bloomberg AusBond Bank Bill Index SM (Gross of Fees)		0.00	0.02	0.37	0.37	1.26	1.52	3.92
Outperformance (Gross of Fees)		0.03	0.16	0.56	0.56	0.46	0.49	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 -0.27% in December. Credit (0.01%) was the top performing sub-component followed by Supra-Sovereigns (-0.20%), Semi-Govt (-0.20%) and Treasuries (-0.36%).

The Index added A\$15.2bn of new supply (issuances and taps). The largest contributors were Semi Government issuers at A\$6.9bn followed by Treasuries at A\$5.5bn and Non-Government issuers at A\$2.8bn. The market capitalisation of the Index now stands at A\$1,410.6bn vs. A\$1,389.8bn the prior month. Seven new issues were added to the Composite Index amounting to A\$4.5bn, which leaves A\$21.8bn in taps.

Australian 2-year bond yields fell 0.02% over the month to 0.07%, while 10-year yields increased 0.07% to 0.97%.

The RBA left the cash rate target and the 3-year yield target unchanged at the December meeting, as widely expected. The Bank has, however, set the bar materially higher for raising rates as the Board now needs to see "materially higher" wage growth, "significant gains" in employment, and a return to a "tight" labor market. In addition, inflation will now need to be "sustainably within" the target band. This is a move away from forecast inflation to actual inflation which is a much higher hurdle. Given these goals and the current outlook, "the Board does not expect to increase the cash rate for at least 3 years". The RBA also confirmed their commitment to QE and their purchasing of A\$100bn in government bonds. Since the announcement in November, the RBA has purchased A\$42 billion in government and semi-government debt.

Domestic economic data was strong with GDP for Q3 rising by 3.3%, this was 0.8% higher than market expectations and left GDP at -3.8% y/y, an increase of 2.5%. Employment data was strong with 90,000 new jobs created and saw the unemployment rate fall 0.2% to 6.8%. The participation rate rose 0.3% to 66.1%. Business data continues to improve as the NAB business conditions survey scored 9, a gain of 8 points from the prior month and business confidence scored 12 points, a gain of 7 points. Consumer confidence also rose with the Westpac consumer confidence survey increasing by 4.1% to 112. Retail sales jumped by 7% in November after an increase of 1.4% in October. Housing also improved over the quarter as the ABS house price index for Q3 rose 0.8%, vs. a forecast of -1.7%.

In the U.S., 2-year treasury yields fell 0.03% over the month to 0.12%, while the 10-year yield rose 0.07% to 0.91%.

The Fed left the Fed Funds Rate unchanged at a target range of 0.0% - 0.25% and provided incrementally more qualitative guidance with regard to the outlook for balance sheet policies (i.e. Quantitative Easing), helping to modestly narrow the "clarity gap" that some believed existed between rate policy and balance sheet guidance. The Fed's announcement means it will now tie its asset purchases to economic outcomes versus following a defined timeframe. Stating that asset purchases would continue at current levels "until substantial further progress has been made toward the Committee's maximum employment and price stability goals." As a result, the Fed elected to maintain the current composition of its bond purchasing program, purchasing as Federal Reserve will continue to increase its holdings of Treasury securities by at least \$80 billion per month and of agency mortgage-backed securities by at least \$40 billion per month.

US economic data was soft over the month. CPI for November increased by 0.2% (1.2% y/y), vs. a forecast of 0.1%. Non-farm payrolls increased 245,000, well below consensus and left the unemployment rate unchanged at 6.7%. Retail sales fell -1.1%, vs. a forecast of -0.3%. Consumer confidence fell by 8% to 88.6. The ISM manufacturing index fell 1.8 points over the month to 57.5, while the ISM services index fell 0.7 of a point to 55.9. Industrial production increased by 0.4%, this was 0.1% better than expected.

Credit spreads rallied marginally over the month tightening by 1bp on average. Performance was mixed across sectors with industrials returning +0.16%, financials +0.03% and utilities -0.03%. YTD total A\$ issuance across financials has reached A\$55.55bn, which is A\$12.3bn less than at the same period last year. Of that, major bank issuance made up A\$12.9bn. YTD issuances for Non-Financial is A\$12.35bn.

The Bloomberg AusBond Bank Bill Index returned 0.00% in December for a 12 month return of 0.37%.

Portfolio commentary

The fund maintained a long duration position over the month. The yield curve steepened marginally in the belly of the curve over the month with 30-day bank bills falling 1bp to 0.01%, while 90-day bank bills fell 1bp to 0.01%, and 180-day bank bills remained unchanged at 0.02%. The average yield on the benchmark fell 1bp to 0.02% in December. The average yield on the fund ended the month at 0.24%. Sector composition remained stable over the month. Commercial paper continues to offer attractive margins over bank bills of around 0.20% to 0.35% and we continued to roll-over selected maturities in this sector. Commercial banks remain flush with cash and the RBA's term funding facility has ensured commercial banks have access to cheap capital until at least the middle of 2021. The fund's investments outperformed the benchmark over the period.

Market and Outlook Commentary

We expect Australia's economic recovery to continue in 2021, assisted by a lower virus infection rate and sustained policy support by the RBA and government. The near-term economic data has been stronger than we expected, especially in the labour market which should result in a stronger base to build a recovery. The RBA remains in no hurry to change policy settings and stands ready to deploy more QE should it be required by April 2021. Yield curve control (YCC) will remain at 0.10% for 2021. It seems the RBA's commitment to not raise rates for 3 years will be trusted by the market for the time being and we don't expect any material change in OCR expectations in 2021. If the unemployment rate falls sharply towards the 'low 5's' and inflation is back in the middle of the band by the end of 2021, then the talk of a potential RBA QE taper and raising YCC target in 2022 will begin to surface.

Globally, the rapid rise in coronavirus infections continued to dominate market headlines and influence risk sentiment. Despite the infection increase markets appear enamored with the view that a rapid vaccine rollout will win through to underwrite the positive risk environment. As a result, the enormous fiscal stimulus programs currently in place are expected to persist until strong gains are made on reducing unemployment and inflation shows meaningful signs of increasing. Underwriting this, the US House of Representatives recently passed a new stimulus package. Global rates markets will look ahead to early January where the potential for a Democratic sweep remains a real possibility and with that the prospect of more fiscal support and higher US taxes. Central banks will continue to avoid an unwarranted tightening of financial conditions, but most likely welcome an orderly rise in yields.

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 IndexSM, 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	192 mil
Buy/Sell Spread	0.00% / 0.00%

Credit Rating Breakdown

Credit Rating	Weight %
P1/A1+	38.69
P1/A1	22.95
P2/A2	13.03
AAA/Aaa	0.13
AA/Aa	11.06
A/A	10.68
BBB/Baa	3.47
NR	-0.01

Sector Exposure

Sector	Weight %
Asset Backed Commercial Paper	0.00
Bank Bills	56.84
Term Deposits	6.82
MBS	0.13
FRN Banks	13.60
FRN Financials	4.25
FRN CMBS	0.00
FRN ABS	0.00
Other	7.36
Cash	11.00

IMPORTANT INFORMATION: Issued by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975, AFSL 230 523 (BIMAL). This material is not a financial product recommendation or an offer or solicitation with respect to the purchase or sale of any financial product in any jurisdiction. The material provides general information only and does not take into account your individual objectives, financial situation, needs or circumstances. Before making any investment decision, you should assess whether the material is appropriate for you and obtain financial advice tailored to you having regard to your individual objectives, financial situation, needs and circumstances. BIMAL is the responsible entity and issuer of units in the Australian domiciled managed investment schemes referred to in this material. Any potential investor should consider the latest product disclosure statement, prospectus or other offer document (Offer Documents) before deciding whether to acquire, or continue to hold, an investment in any BlackRock fund. Offer Documents can be obtained by contacting the BIMAL Client Services Centre on 1300 366 100. In some instances Offer Documents are also available on the BIMAL website at www.blackrock.com.au. BIMAL, its officers, employees and agents believe that the information in this material and the sources on which it is based (which may be sourced from third parties) are correct as at the date of publication. While every care has been taken in the preparation of this material, no warranty of accuracy or reliability is given and no responsibility for the information is accepted by BIMAL, its officers, employees or agents. Any investment is subject to investment risk, including delays on the payment of withdrawal proceeds and the loss of income or the principal invested. While any forecasts, estimates and opinions in this material are made on a reasonable basis, actual future results and operations may differ materially from the forecasts, estimates and opinions set out in this material. No guarantee as to the repayment of capital or the performance of any product or rate of return referred to in this material is made by BIMAL or any entity in the BlackRock group of companies. No part of this material may be reproduced or distributed in any manner without the prior written permission of BIMAL. © 2020 BlackRock, Inc. All Rights reserved. BLACKROCK, BLACKROCK SOLUTIONS, iSHARES and the stylised i logo are registered and unregistered trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

WHOLESALE CLIENTS ONLY - NOT FOR DISTRIBUTION TO RETAIL CLIENTS