BLACKROCK WHOLESALE INTERNATIONAL BOND FUND

FUND UPDATE **31 March 2021**

Investment Performance (%)

	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Since Incep
BlackRock Wholesale International Bond Fund* (Gross of Fees)	-0.10	-2.12	-2.12	5.80	4.70	4.08	6.64
Barclays Global Aggregate 500 Index (hedged in AUD)	-0.39	-2.52	-2.52	0.96	3.73	3.23	6.58
Outperformance (Gross of Fees)	0.29	0.39	0.39	4.84	0.97	0.86	0.06
BlackRock Wholesale International Bond Fund^ (Net of Fees)	-0.14	-2.25	-2.25	5.98	4.10	3.50	5.92
Barclays Global Aggregate 500 Index (hedged in AUD)	-0.39	-2.52	-2.52	0.96	3.73	3.23	6.58
Outperformance (Net of Fees)	0.25	0.26	0.26	5.02	0.37	0.27	-0.66

*Fund inception: 30/09/1992. ^Fund inception: 30/09/1992.

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. Net performance is calculated on exit-to-exit price basis, e.g. net 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.

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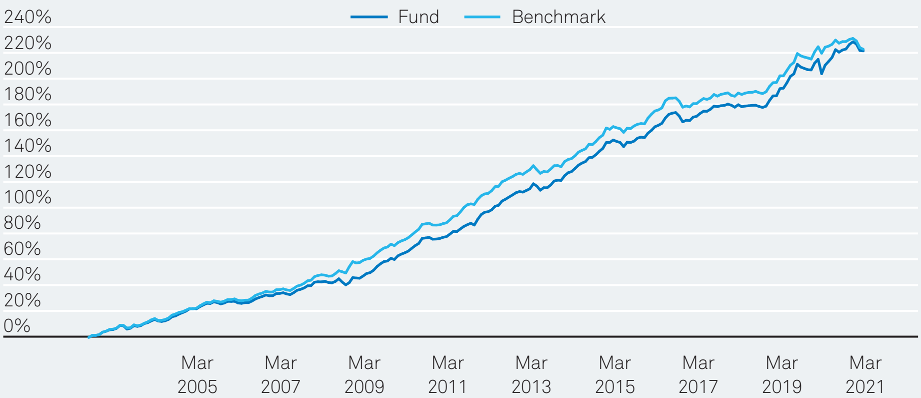
- Market Insights & Commentary
- Fund Performance
- Unit Prices

Fund Performance (Gross of Fees) to 31 March 2021



Performance Summary

Market Review

United States

In March, risk assets (notably equities) continued to be volatile as the US market increasingly embraced the reflationary narrative and expectations for stronger growth later this year. The pick-up in government bond yields rattled investor confidence. The NASDAQ composite dipped into correction territory while the Dow advanced to record highs as investors rotated towards sectors that are more likely to benefit from the reopening. The vaccine rollout increased its pace, and the latest data prints pointed to a robust consumer backdrop. The passing of the $1.9trn fiscal stimulus package with the potential of more infrastructure stimulus sparked inflation expectations to move higher. On the data side, the recovery in the labor market continued to be sluggish. Initial jobless and continuing claims trended lower over the month, with the February unemployment rate clocking in at 6.2%. February headline and core CPI increased ~0.35% MoM and ~0.10% MoM, respectively. Both came slightly below consensus, with stronger gains in rents and Owners' Equivalent Rent (OER) supporting the core print. The March Conference Board's consumer confidence index came in well above expectations to its strongest reading since March 2020, at 109.7 points vs. consensus 96.9 points. February Produce Price Index (PPI) printed at ~0.5% MoM.

US Rates continued to sell off sharply in March. The move was bolstered by an increasingly optimistic domestic macro backdrop, namely the rapid pace of the US vaccine rollout, which has reinforced higher growth and inflation expectations. The 10 year note sold off ~35bps to close the month above 170bps, its cheapest level since January 2020. While the long end of the yield curve sold off too, it performed much more strongly than it had over the first two months of the year. The 10s 30s curve flattened ~8bps in March despite the outright selloff in duration. The relative strength of the 30y point was likely supported by pension rebalancing needs as equities have outperformed fixed income and funding statuses have improved in Q1. Weakness in the belly came despite a relatively dovish March FOMC meeting in which the Fed increased its growth and inflation forecasts but left a highly scrutinized measure of rate hike timing expectations largely unchanged, with Federal Funds Rate projections still pinned near 0 through 2023. The 5 year note initially rallied in line with the outcome but quickly reversed course and sold off ~7bps the next day, perhaps highlighting an emerging divergence between the Fed and the market regarding the outlook for the medium term path of rates. Treasury auctions proceeded without any major shocks throughout the month though bid to cover ratios remained slightly suppressed vs 2020 levels and the 7 year auction tailed ~2.5bps indicating continued supply indigestion as the market grapples with record auction sizes. Still, the March auctions were strong enough to soothe most lingering market fears of a major supply/demand imbalance and overall liquidity generally improved as the month progressed.

Eurozone

10y bund yields have settled around -0.30% in March, after a steep rise earlier in the year, outperforming US and UK peers which continued the march higher. Sovereign spreads are generally firmer, helped by an improving political situation in Italy. Corporate spreads have been drifting wider for most of the month before reversing a half of the movie in the final few days. Overall, the Bloomberg Barclays Euro Aggregate index registered a -1.91% total return capping what has been one of the more difficult quarters for developed market fixed income in resent history.

European economies have been battling with a sluggish vaccine roll-out, rising infection rates, renewed lockdown restrictions or delayed re-opening. As investors would prefer to look through these temporary headwinds, the vaccine roll-out looks set to accelerate in the second quarter, and should pave the way to a full restart in the second half of 2021. Still, the political cost for those incumbents facing elections may be more enduring – especially in light of the elections in Germany this September and potentially also in France next Spring. The economic fundamentals still point to the European economy eventually returning to its pre-COVID trend, but the renewed near-term weakness implies that the full restart is likely to be delayed.

In Economic data, Euro area flash composite PMI came in at 52.5, up from 48.8 and well above consensus. The strength was driven by the continued strength in the manufacturing sector. The reading is consistent with improvements seen in the mobility indicators during the data period. However, the latest restrictions were likely not caught by this set of PMIs.

The manufacturing upturn was led by a record surge of factory production in Germany, accompanied by the fastest production growth since January 2018 in both France and the rest of the region as a whole. March also saw firms' costs rise at the fastest rate for a decade, pushing prices charged for both goods and services higher during the month. Goods prices rose especially markedly, posting the largest rise for almost ten years, often linked to suppliers hiking prices amid record supply chain delays as shortages worsened.

Eurozone March inflation report showed CPI rising to 1.3% from 0.9% in February. Core CPI, however, moved two tenths lower from 1.1% to 0.9%. This number has been less consistent this year due to changes to the inflation basket, German VAT rate change and COVID related delays. Sentiment surveys have generally came in stronger than expected.

United Kingdom

Weekly new Covid infection rates across the UK remained subdued throughout March as the country's vaccination rollout kept a swift pace. Over 31.1 million first doses were administered as of 31st March. As vaccination targets remained on track, the UK continued its gradual reopening of the UK's economy. Stage 1 saw all pupils returned to school early in the month, paving the road for stage 2 to follow on 12th April.

Risk on sentiment was observed over March as upgraded global growth expectations coupled with the passing of Biden's stimulus package, totaling 9% of US GDP, prompted risk free markets sell off and rate volatility to increase. The equity rally was seen in UK small cap stocks, with the Russell 2000 up 12% ytd. In the UK rate space, the 5-year, 10-year and 30-year UK gilt yields ended the month of February substantially higher, rising to 0.39%, 0.85% and 1.40%, respectively. The UK 5s30s curve oscillated mildly throughout the month and ended February slightly steeper. 10-year German bund yields fell slightly, ending the month 3 bps lower at -0.29% whereas 10-year US treasury yields rose during the period, ending the February at 1.74%.

March's UK composite purchasing managers' index ("PMI") of 56.4 recorded a significant increase from previous months reading of 49.6. Service PMI recorded a notable improvement of 56.8, alongside a lower manufacturing figure of 55.6. The reading signaled decreasing bifurcation between the service and manufacturing sectors for the first time since the beginning of the pandemic in February 2020.

UK retail sales volume increased only moderately in February by 2.1% as COVID restrictions hindered sales. As a result of the subsided activity, sales volume was 3.7% yoy lower compared with pre-lockdown levels. Non-food stores contributed most to the monthly growth in both amount spent and quantity purchased, with solid increases in volume of 16.2% and 16.1% across department stores and household goods, respectively. The proportion spent online increased to a record 36.1% in February, reflecting pent up demand and changing consumer behaviour.

The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 0.7% in February, a decrease of 20 basis points, from 0.9% in January. The largest contribution came from transport, followed closely by recreation and culture. During the initial lockdown many CPIH items were not available to UK consumers. In February the amount unavailable stood at 69 items or 8.3% of the basket. The 30-year UK breakeven rate stood at 3.33% at the end of March.

Japan

Despite rising US yields, the JGB market rallied though March and the 10-year bond rallied 7 bps to end the month at 0.09%. Notably, there was a sharp rally after Governor Kuroda's unexpected comments regarding the widening of the 10-year JGB target under YCC was "neither necessary nor appropriate" before the MPM this month. Although MPM turned out to deliver a mild widening of the permissible flexibility from +/- 20 bps to +/- 25 bps, the market reaction was limited. In terms of technicals, towards the end of the fiscal year in Japan, flows were relatively quiet and choppy at times.

Overall, positive developments were observed for economic prints over the month despite the second implementation of SoE (Status of Emergency): machinery orders fell -4.5% in January although this was better than expected. The trade balance went into deficit with imports putting up a +11.8% YoY increase. Labor market surveys also showed a relatively sharp increase, indicating a recovery ahead. BOJ-preferred measures of inflation (ex fresh food and energy) in February improved to +0.2% YoY.

While the interest rates were unchanged during the March MPM, various sets of policy changes were announced by the BOJ. Besides slight widening of the JGB 10Y target band under YCC, the bank removed the minimal target on ETFs/J-REITs purchases and chose only to purchase Topix linked ETFs instead of both Topix and Nikkei. The BOJ also introduced fixed-rate purchase operations to combat sharp yield rises when necessary. Finally, the BOJ made adjustments to the 3-tier system and introduced a new interest scheme to promote lending in the case of a further rate cut.

Market Review:

The tone in financial markets has been 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. Developed market government bond yields elsewhere did not rise as in previous months, and were broadly flat to lower over the month. 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.

One of the main themes over the first quarter has been around the prospect of central banks recalibrating their ultra- accommodative monetary stance and how this is expected to look both in terms of timing and implementation. The US Federal Reserve (Fed) has deliberately been very careful with its communication and this was once again the case with the Federal Open Market Committee (FOMC) meeting in March. The Fed stressed the importance of realised inflation, emphasizing the significance of its average inflation target policy, while talk of tapering it's bond purchasing programme was dismissed as too early. There also appears a degree of comfort with the recent rise in yields to the extent that these moves are not "disorderly".

In Europe, the European Central Bank (ECB) kept its monetary policy stance unchanged. The accompanying statement did, however, note a higher pace of asset purchases under the pandemic emergency purchase programme (PEPP). They reiterated the need to maintain favourable financial conditions in light of the negative impact of the pandemic, and measures to contain it, on the path of inflation. The ECB now forecasts 4% GDP growth for the eurozone this year and 1.5% HICP inflation. The rollout of the vaccine is the crucial factor that should help facilitate a strong rebound, in tandem with supportive financial conditions and fiscal stimulus measures. In emerging markets, Turkish assets sold off sharply on the back of the dismissal of governor Naci Agbal who was replaced by party loyalist Sahap Kavcioglu. Pass-through to other emerging market assets was however quite limited.

Riskier assets were generally range-bound over the month. Emerging market assets continued to lag, mainly driven by higher government bond yields and a stronger US dollar. High yield markets outperformed investment grade, while US high yield outperformed Europe. Developed market government bond yields posted mixed returns across different regions with Australia and Japan both rallying, and US Treasury yields continuing to sell off. Relatedly, the US dollar enjoyed a stronger month versus most G10 peers, while the weakest performing currencies were once again the Swiss franc and the Japanese yen given the broadly positive risk backdrop. Energy prices ended the month modestly lower on the back of the stronger dollar, increasing US supply and concerns over new lockdowns in Europe.

Performance Attribution

- The Fund outperformed its benchmark over the month driven by macro rates strategies, active currency positioning and allocation to spread assets.
- Macro rates strategies ended the month with positive alpha. Our underweight to US duration and overweight to Italy and Greece sovereign debt led the outperformance, along with our overweight to Australia duration. Additionally, our yield curve positioning in Canada also contributed to returns. In contrast, our yield curve positioning in the US and off-benchmark exposure to UK inflation-linked bonds detracted, as did our overweight allocation to Canada duration and our underweight to Japan duration.
- Our developed market active currency positions posted positive returns overall, with the main contributor being our short euro and Japanese yen positions. Furthermore, our short Swedish krona and Swiss franc positions added to returns. In contrast, our short Canadian dollar position posted negative returns over the month.
- Within credit strategies, the main contributors included our overweight exposure to US dollar denominated investment grade industrials and underweight to US dollar denominated senior financials. In addition, our overweight allocations to securitized assets, predominantly through US CMBS and ABS, and select high yield names added to performance.
- Emerging market strategies posted negative returns over the month led by our overweight allocation to emerging market hard currency debt and to China local currency government bonds. This was partially offset by our overweight exposure to Russia local currency government bonds. Emerging market currency positioning detracted modestly from performance, driven by our short Indian rupee and long Turkish lira currency positions, partially offset by our long position in the Mexican peso and short in the South African rand.

Portfolio Activity

- Within spread assets, we have decreased our overweight in high yield, while increasing our overweight to emerging market hard currency debt and retaining our overweight to securitized over the month. In the investment grade corporate space, we have rotated our underweight to investment grade industrials to an overweight and reduced our underweight to investment grade financials.
- We have increased the Fund's overall duration underweight exposure over the month. The increase in the overall duration underweight was led by an increase in our US, EUR and UK underweight exposure. Within Eurozone sovereigns, we increased our Germany duration underweight, trimmed our overweight to Italy government bonds and retained our underweight to Spain and France sovereign debt. Elsewhere, we maintained our underweight allocation to Japan duration and our overweight exposures to Australia and Canada duration over the month. In developed market currencies, we increased our short euro position, while trimming our long US dollar position. We also shifted our short Japanese yen position to a long, while retaining modest short positions in the Canadian dollar and Swiss franc.
- Within emerging markets, we continue to hold overweight allocations in select areas of local currency debt including China, Indonesia and India. We have increased our long Russian ruble position and Mexican peso positions, while leaving our other emerging market currency positions unchanged over the month.

Outlook

- The massive fiscal stimuli across the globe are starting to find their way into consensus growth estimates. Corporate profits, sales revisions, forward guidance, and earnings surprises are all showing signs of an impending – and still underappreciated- economic boom. In fact, S&P 500 earnings are expected to surpass 2019 levels as soon as this year, with double digit growth the year after (and likely again the year after that). Therefore, we expect a strengthening global economy driven by huge fiscal impulses, accommodative monetary policies and healthy economic fundamentals supported by the accumulation in personal savings.
- In terms of monetary policies, we see a more muted response of government bond yields to stronger growth and higher inflation than in the past. While the direction of travel is likely to still be higher, central banks are likely to lean against any sharp yield rises which should be supportive for risk assets.
- With a global economy marked by an accelerating real economic activity, we believe that valuations are at elevated levels in some assets, but we still see tangible upside potential in many others. We think that owning yielding assets – such that being pro risky assets – still makes sense in this economic backdrop.
- For these reasons, in the Fund, we maintain a slightly pro-risk stance and we hold select exposure to emerging markets, investment grade and high yield bonds, and securitised assets, retaining our bias to a robust and diverse portfolio through holding income-generating assets in a risk-aware manner.
- Finally, we have been continuing to run a US duration underweight position as we believe that valuations are still less attractive at current yield levels. However, we think we are getting closer to yield levels where duration can act as a hedge again. We continue to believe that markets may be underestimating the probability of an earlier-than-expected taper, while the stronger economic growth outlook, and the amount of further fiscal support expected to come through with a Democratic led White House, mean that we still expect US Treasury yields to move modestly higher from here.
- We prefer to hold duration in other parts of the world, and we have shifted some of our US duration into some European countries – particularly in Italy, as ramped-up economic policy responses from the ECB should continue to support those countries. We also maintain our preference for higher quality emerging markets countries such as China where we think monetary policy will remain supportive despite the strong rebound in economic activity.

Region Exposure

Region	Weight %
UK	2.75
Europe (ex UK)	22.61
North America	52.72
Japan	6.88
Asia (ex Japan)	2.31
Other	12.73

Credit Rating Breakdown

Credit Rating	Weight %
AAA	33.36
AA	11.63
A	22.76
BBB	18.37
BB>	8.47
Other	5.41

Sector Exposure

Sector	Weight %
Government	**43.51**
Government Related	13.25
Treasury	30.26
Corporate	**20.76**
Financials	5.70
Industrials	14.21
Utilities	0.85
Other	0.00
Securitized	**32.51**
Cash & FX	**3.14**
Other^	**0.08**

About the Fund

Investment Objective

The Fund aims to outperform the benchmark Barclays Capital Global Aggregate 500 Index (AUD hedged) Index by 150 basis points p.a. (before fees) over rolling 3 year periods.

The Fund seeks to achieve its performance objective through the taking of active risk versus its benchmark index in strategies based on areas including, but not limited to, the following:

- duration;
- yield curve selection;
- sector (eg. credit) selection;
- issuer; and
- country, security and currency selection.

The Fund benchmark is hedged back to Australian dollars. We may, however, take active currency positions relative to its fully hedged benchmark subject to certain restrictions.

Fund Strategy

The Fund is actively managed within a rigorous risk management framework. The 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 global fixed income team. The Team seeks to add value by managing duration, yield curve, and sector (eg. corporate, mortgage backed, agency debt, etc) and individual security, country and currency exposures against the benchmark.

In seeking to access a broad array of enhancement strategies, we utilise proprietal research-based knowledge, fundamental macroeconomic and credit, sector and security analysis. The management of risk is central to our investment process. The Team reviews the Fund 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 fund which aims to provide capital growth and some tax effective income.
- Accept the risk of significant price fluctuations.

Fund Details

BlackRock Wholesale International Bond Fund	
Fund Size	65 mil
Buy/Sell Spread	0.23% / 0.23%

BLACKROCK®