BlackRock

The Global Allocation Fund:

A more effective approach to tomorrow's markets

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About a year ago we got together with the investment team at the BlackRock Global Allocation Fund, to discuss how the team's investment process had evolved in an extraordinarily challenging period. Now, with a tumultuous 2020 behind us, yet further challenges in 2021, we circled back up with the group to discern their lessons learned from an unprecedented period and how they plan to navigate markets in the year ahead.

BlackRock Global Allocation Fund

Inst: **MALOX** • A: **MDLOX** • C: **MCLOX**

● 1st Quartile ● 2nd Quartile ● 3rd Quartile ● 4th Quartile

MALOX

★★★★★

Silver

	Morningstar Category Percentile Ranking (Count)				Morningstar Overall Rating**	
Date	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**	**Star**	**Rated out of**
3/31/19	53rd (469)	61st (397)	45th (321)	74th (161)	★★★	397 funds
6/30/19	41st (467)	45th (395)	41st (315)	70th (169)	★★★	395 funds
9/30/19	45th (450)	53rd (376)	49th (307)	68th (179)	★★★	376 funds
12/31/19	40th (459)	51st (379)	40th (320)	62nd (182)	★★★	379 funds
3/31/20	11th (466)	15th (396)	17th (329)	37th (199)	★★★★	396 funds
6/30/20	5th (471)	9th (399)	16th (342)	31st (207)	★★★★	399 funds
9/30/20	3rd (475)	6th (394)	8th (338)	25th (208)	★★★★★	394 funds
12/31/20	3rd (472)	3rd (402)	9th (350)	23rd (208)	★★★★★	402 funds
3/31/21	23rd (461)	3rd (400)	10th (351)	27th (224)	★★★★★	400 funds

Performance data quoted represents past performance and does not guarantee future results. As of March 31, 2021. Source: BlackRock, Morningstar. The performance depicted above is for the BlackRock Global Allocation Fund (Institutional). Other share classes will vary. *Morningstar category represented by the U.S. Fund World Allocation Category. **Morningstar Rankings are based on total return excluding sales charges, independently calculated and not combined to create an overall ranking. As of March 31,2021: 1yr 23/461, 3yr 3/400, 5yr 10/351, 10yr 27/224.† Global stocks are represented by the FTSE World Index. Rick Rieder joined the Global Allocation Team on April 1, 2019. **Overall Morningstar Rating for Global Allocation Fund, Institutional, as of March 31, 2021 rated against 400 World Allocation Funds based on risk adjusted total return over the 3-year period. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index.**

Overall Ratings are determined monthly and subject to change. Ratings are based on risk-adjusted total returns. Morningstar has awarded the Fund a Silver Medal. Fewer than 10% of US open-end funds hold medalist ratings (Effective 4/6/21). Past performance is no guarantee of future results. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating metrics.[1] As of March 31, 2021, the Global Allocation Fund received a Morningstar Rating of 5 stars for the 3-year period, 5 stars for the 5-year period and 4 stars for the 10-year period, rated against 400, 351 and 224 World Allocation Funds, respectively. Morningstar Rating is for the Institutional share class only; other classes may have different performance characteristics. **Past performance is no guarantee of future results.**[2] More information available in "Important Notes" section.

Rick, obviously the Covid crisis hit just over a year ago, and while the subsequent economic and market damage was unprecedented, the recovery in the U.S. has been remarkably robust as well. What do you think worked with how you and the team navigated the fund in 2020?

First, I'd like to say that in several respects 2020 represented a clarifying moment to many, as our regular modes of work, family life, socialization and leisure and even consumption were radically disrupted like at no other time in recent memory. Yet through it all, it was truly a privilege to work with the talented team at Global Allocation, which not only didn't skip a beat in the management of the fund, but actually came together to deliver one of our best years yet, performance-wise both on an absolute and relative basis (see Figure 1 and Figure 2 below). In this remote environment, we continued to find ways to share ideas between this team, the Global Fixed Income group (where Rick has been Chief Investment Officer for more than a decade) and many other investors across the firm. And in my view, it's that ability to debate and challenge one another's thinking- and to discover new sources of information and data- that serve as some of the most important differentiating factors for the team. The team's strong performance was also recognized by Morningstar, which in April upgraded the fund's Institutional share class medal rating to Silver. That is a big vote of confidence from the industry's leading retail consultant on the enhancements that we have made to our process and to our personnel over the past two years.

In 2020, the institutional share class of Global Allocation (MALOX) delivered a total return of 21.1%, outperforming its reference benchmark by 778 basis points (bps), and outpacing its Morningstar World Allocation category peer group average total return by 1,494 bps, the widest margin of outperformance over the peer group average for us in any calendar year. Further, the team was able to outperform consistently, as we bested both the benchmark and peers in 11 of 12 months last year. While I'm extraordinarily proud of the team's performance during those challenging markets, I'm also pleased by precisely how that performance was achieved. Critically, the outperformance was driven by many different parts of the portfolio. That result included: our asset allocation decisions, sector positioning within equities (such as our long-term emphasis on high-cash-flow companies; the "fast rivers of cash flow"), as well as a tactical rotation into cyclical sector exposures in the back half of the year (which rallied nicely in the fourth quarter) and positioning across various segments of fixed income. The fixed income positioning has become trickier of late, as both nominal and real yields are so low (and index duration so high) that the risk/return profile in high-quality sectors has become much less compelling, leading us to look further down the capital stack in credit for attractive carry opportunities and emphasize higher cash balances, which serve as a better portfolio beta hedge at this point, in our view.

We also made some timely macro trades, including capitalizing on opportunities in the volatility markets that were important contributors to results, as were certain thematic and systematic baskets that we utilize at the fund. Yet, perhaps most notably, well more than half of the 778 bps in net alpha (relative to our 60/40 reference benchmark) was derived from individual security selection within equities and was sourced from numerous sectors, including: Information Technology, Consumer Discretionary, Energy, Communication Services, Utilities and Healthcare, to name only some. For that achievement, I would commend David and his world-class team of equity analysts. I would also say that part of our success in equities has also been driven by our laser focus on a company's future cash flow potential, and particularly allocating capital to what I call the fast rivers of cash flow.

Average annual total returns (%) As of 3/31/2021 (unless otherwise noted)	2020	1 year	3 years	5 years	10 years	15 years
Global Allocation Fund (Inst.)	**21.12**	**40.63**	**10.45**	**9.77**	**6.62**	**6.82**
Reference Benchmark*	13.34	30.86	9.26	9.28	7.36	6.66
Morningstar World Allocation Category Average	6.18	33.64	6.43	7.60	5.55	5.60

Performance data quoted represents past performance and does not guarantee future results. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The performance depicted above is for the BlackRock Global Allocation Fund (Institutional). Other share classes will vary. Current performance may be lower or higher than that shown. Refer to blackrock.com for current month-end performance. Investment returns reflect total fund operating expenses, net of all fees, waivers and/or expense reimbursement. Total annual fund operating expenses as stated in the fund's most recent prospectus are 0.88% for Institutional shares. * Reference benchmark consists of 36% S&P 500 Index, 24% FTSE World (ex-U.S.) Index, 24% ICE BofA/ML Current 5-Year U.S. Treasury Index, 16% FTSE Non-USD World Government Bond Index.

Rick, can you please expand on what you mean by "fast rivers of cash flow," what do you mean by that and why is it so important to how you and the team allocate capital within the fund?

Certainly; the industries and corporations that comprise the fast rivers of cash flow, the way we think of it, are those that benefit most from technological innovation, either because they're driving the development of new technologies, or they're at the forefront of implementing them in novel ways to disrupt established business methods. We often refer to these companies as "fast rivers of cash flow" because by leveraging the scale that technology provides them in reaching end market customers (often globally), these companies not only benefit from rapidly growing revenue and free-cash flow, but usually require far lower capital outlays to grow and scale their operations than companies of prior generations that invested much more heavily in labor, equipment and physical locations.

That phenomenon reaches much further than Information Technology, with companies across many sectors finding ways to use technology to advance and adapt their business models. One of the most commonly cited examples of this is the sea change we've witnessed over the past decade in how goods/services are sold/distributed, with online purchasing taking an ever-greater share of consumer spending and brick-and-mortar stores suffering greatly. The advent of the Coronavirus health crisis has ended up accelerating the increasing trend toward online consumption that was already firmly entrenched prior to the crisis, but the extent of this transformation is still underappreciated by many.

Indeed, the share of consumption that was conducted online went from 5% in 2009 and increased to 15% by the end of 2019, but by the end of 2020, it resided at 25%, according to data from the Federal Reserve Bank of St. Louis, as of March 31, 2021. Effectively, the Covid crisis accelerated a decade worth of growth in this consumption trend in a single year. And while there have already been some short-term reversals to the trend of online consumption, as people are vaccinated and desire the experience of in-person shopping again, the trend has become firmly established and will continue to grow longer-term. That fact holds enormous implications for where capital should be invested long-term, and which firms will represent the winners and losers of this secular change. In 2021, none of this seems particularly new anymore, but we're continually astonished by the many investors that aren't adequately implementing changes to their portfolios, by directing capital toward those locations that are winning the war for cash flow on the technological front.

Another key point to understand here is that these "fast river" companies are able to reinvest huge amounts of their profits into research and development to help create the opportunities of the next 20 years- certain firm's advances in the area of quantum computing is a great example, but there are many others, involving artificial intelligence, advanced robotics in manufacturing, and the rise of smartphones and the "app economy." The success many of these companies have seen may well bring heightened regulatory scrutiny in the years to come, so pricing the political risk properly is critical too.

Turning to you, David, clearly a great deal of your focus in the equity segment of the portfolio is in leading your team of equity analysts to select those "fast river" winners across various industries, as well as avoiding the losers, so can you describe your process a bit and how the equity portion of the fund has evolved?

Absolutely; first, from a high-level standpoint, our overall equity exposure is always dynamically managed amid volatile market conditions, whether in 2020 or before, or this year. That said, we began last year a bit below two-thirds of assets in equities, falling to a low of 58% at the end of March (and even lower intra-month) and peaking at its current level of 66% toward the end of last year. Of course, the ebb and flow of those aggregate numbers don't provide much detail on how we think of different parts of the market, much less the process we go through to identify compelling individual equity names, so I'll expand on that.

From a sector perspective, we emphasized secular growth companies for the majority of 2020, however, we increased the fund's exposure to higher-quality cyclical stocks in the second half of the year, in anticipation of broad based economic recovery following the incredible combination of monetary and fiscal stimulus. Further, equity exposure as of year-end was balanced between secular growth companies positioned to benefit from the long-term trends that Rick referenced and cyclical companies that would benefit most from a sustained economic recovery in the near-term. Cyclical exposure is in both traditional economically sensitive segments of the market, such as home builders and specialty chemicals, as well as in more cyclically oriented areas of technology, via semiconductors and payments companies, for instance. Finally, despite our rotation toward cyclicals, we remain cautious on the deep value-oriented sectors of the market, including most brick and mortar retailers, commercial real estate and parts of the financial sector where commerce has changed the cash flow outlook of business models. The fact is that those companies that are being left behind by their "fast river" competitors, as Rick has suggested, are not going to be good long-term investments, even if they see bounces shorter-term.

Turning to our process; for us, it starts with a firm commitment to fundamental analysis, which we think is a differentiator from some competitors. Today, roughly half of the overall fund book is represented by a little more than 100 equity names derived by careful fundamental analysis, with an additional 10% to 15% invested in the thematic and systematic baskets that Kate and Russ manage, which I'll let them describe more fully. Of course, as both Kate and Russ construct these baskets, the process includes close collaboration with and input from our fundamental analyst team too. Additionally, what needs to be understood is that our commitment to fundamental equity analysis doesn't preclude the use of more quantitative tools as well. Indeed, both fundamental and quantitative analysis are integral to the research process and help the team identify potential opportunities and monitor each security held in the portfolio. In fact, while the team examines a wide array of macro and micro factors, as well as company- and industry-specific considerations when evaluating a potential purchase, we look closely at expected free cash flow generation, and in particular discounted cash flow analysis. We also focus on various relative valuation metrics, including the price/cash flow ratio (P/CF) and the enterprise value/earnings before interest, taxes, depreciation and amortization measure (EV/EBITDA), as well as qualitative considerations.

One valuation metric that we've become increasingly skeptical of in today's environment, despite its popularity with many market commentators, is the price-to-earnings ratio (P/E). In our view, P/E is simply not as meaningful a statistic today, due to the fact that it does not account for the low discount rate. We think that cash flows, the duration of an asset and the discount rate are critical components for evaluating an investment, particularly as the discount rate is likely to remain low for a very long time. When companies can finance at rates as low as are prevalent today that in turn allows for greater research and development, capital expenditure and merger and acquisition spending, This dynamic changes the longer-term cash flow potential of corporations and thus what our outlook for equity market valuations should be.

As is evident, the team finds cash flow analysis to be particularly useful when evaluating security desirability across a single company's entire capital structure. And as might be expected, longer-term structural themes are often key components to an analysts' projections of a company's future cash flow potential, particularly when they're attempting to identify those regions of the market that we've referred to as the "fast rivers of cash flow." As we've discussed in the past, analysts are required to provide a detailed investment thesis –including a quantified degree of conviction and estimated price target –for each equity security offered to the portfolio managers for potential inclusion to the portfolio. We include both the conviction levels and price targets as matters of record in the team's proprietary research tool, Mosaic, and they are available for all team members to view.

Mosaic is a research platform that is typically used by the investment team to monitor portfolio exposures as well as to facilitate analysis of the investment universe across a broad range of factors and fundamental data, including both traditional valuation metrics and ESG metrics. The tool incorporates fundamental and quantitative information to gather insights, both proprietary and third-party. Beyond research and screening on individual securities, Mosaic also provides a platform for a transparent research record for collaboration across analysts, key metrics, portfolio construction tools and risk and performance analytics. And further, the team utilizes other quantitative investment tools and BlackRock resources, such as the Global Allocation Risk Dashboard and BlackRock's Aladdin®, to augment its fundamental research and further evaluate portfolio positioning.

Finally, since Rick assumed leadership of the fund in April 2019 we have an even greater connection to the Global Fixed Income team and their credit analyst groups, which also provides for expanded opportunities to drive forward the efficient allocation of capital between the equity and debt segments of the corporate capital structure. This is a sometimes underappreciated point regarding the fund; we have an immense toolbox for investing virtually anywhere in the world, across a huge range of securities, so working on a collaborative team with this flexibility is very rewarding, both intellectually and in delivering fund results.

Kate, as David mentioned, you're the Head of Thematic Strategy for Global Allocation, so how do you think about the thematic investment baskets and the role that they play in the fund?

As Rick indicated, at Global Allocation (GA) we look to identify trends across global industries that are economically disruptive, and we explore how best to take advantage of the eventual market dispersion that results between those firms that are disruptors and those that are disrupted. In this way, we seek to add incremental, but durable, alpha to the portfolio. Generally speaking, the thematic strategies we employ are focused on opportunities within – and across - industries that we believe will drive growth for years to come, further refining both the bottom-up fundamental analysts' research and the team's top-down views. The holding period of the thematic investments may also be different than a core fundamental equity position or a more tactical macro tilt.

The thematic strategy seeks to capitalize on opportunities in two main areas: broad macro trends related to the business cycle and discontinuous change in technology, behavior, and consumer preferences. Some of the best expressions of these themes are within the mid/small/emerging market spaces, and thus liquidity considerations make a “basket approach” the most efficient expression. These baskets are generally comprised of 6-10 securities that have high gearing toward the specific theme. We find that this semi-concentrated construction allows us to isolate a theme, or trend, without limiting ourselves to a single exposure. For example, a thematic basket may include several of the top competitors within a rapidly growing industry that can support multiple winners. These baskets can also include companies operating in multiple parts of the supply chain – from raw materials to services.

A selection of the thematic baskets we have employed within the portfolio over the past year include: security software providers that both protect against growing cyber threats and facilitate secure remote working; technology and networking companies critical to the build-out of 5G infrastructure; consumer service and healthcare companies focused on rising Chinese consumer spending; and exposure to U.S. domestic recreation companies that saw an increase in demand amid international travel restrictions. Additionally, we continue to build out our exposure to key climate change-related companies, which we see not only as an important secular position for the fund, but also one that could benefit from shorter-term policy changes related to the change in Administration in the U.S. The attention governments, policy makers and investors around the globe are paying to climate change is leading to meaningful capital investment and regulatory change. On the team and within BlackRock, we consider climate change a major systemic risk factor, and investment opportunities within this space are only likely to grow in the years ahead. And while climate risk is often thought of in terms of its potential costs to the economy (or to a given corporation), we think that the prospect of solutions and mitigations to the issue, which are being put forward by innovative firms around the world, can hold tremendous potential for both aiding the problem and generating returns for our clients.

Another point that I think is critical to emphasize is the dynamism with which the team can manage the portfolio, and the Thematic Strategy is part of that. We have deep resources to identify economic and market regimes, industry changes, and specific corporate opportunities. Since changes in the regime can influence asset class and industry correlations, our collaborative research and analysis allows us to adjust our tactical asset allocation and build a more resilient portfolio. Over the last decade, we have witnessed several periods of high cross-asset correlations and suppressed volatility – from the advent of quantitative easing (QE) in the wake of the Global Financial Crisis, and more recently with the Coronavirus health crisis. As central banks slashed interest rates and purchased assets, the discount rate declined across all assets, producing a powerful dynamic. But even within these periods of QE, regimes shift and evolve, which speaks to the need to employ a process that is constantly evaluating asset class correlations and making required adjustments to the portfolio. This is the kind of thing we’re very effective at doing here at the GA team.

Russ, would you tell us more about the approach behind Global Allocation’s systematic tilts and explain how you look to implement them?

Yes, of course. So, what we’re aiming to do in the GA portfolio is institutionalize a process whereby we can manage, and when necessary neutralize, the various factor exposures in the portfolio. The basic goal is to use modern portfolio construction and risk management tools to truly allow the fund to perform as an “all weather” investment vehicle. Practically speaking, what does that really mean? It means that we want the portfolio to see gains in both periods in which growth, or value, segments are leading the markets. Further, while we’ll use duration as a hedge to our equity risk positions, we’ll also take tactical positions in gold, equities with lower volatility profiles and in select currencies that can also provide hedging capabilities.

Hedging equity risk in a portfolio today has become a more complicated business. That’s partly because the effectiveness of bonds as a hedge to equity market volatility has been diminished in the low rate environment we find ourselves in, and due to the Federal Reserve’s commitment to keep rates anchored for the foreseeable future. As a result, the fund remained underweight duration (relative to its benchmark) throughout 2020 and yield curve exposure was tactically managed to maximize the hedging properties of the nominal Treasury positions. We still believe that duration can serve as a counterweight to equity beta, but lately we’ve been utilizing a higher cash weighting in the fund to serve as stable ballast.

On the equity side, the portfolio’s overall exposure to growth versus value factors is more balanced today than it has been historically, which should help the portfolio perform under various market conditions. Overall, the systematic strategies we run typically account for between 6% and 8% of total portfolio exposure, and they allow the team to view the portfolio through a different prism; to more fully understand the style factors that the portfolio is exposed to. We employ systematic tilts in the GA portfolio in order to either partially off-set certain factor exposures that can inadvertently develop as a result of our core/fundamental portfolio construction process, or to supplement those exposures where the portfolio managers have concluded that the portfolio may be deficient. Additionally, as part of the fund's systematic strategy, we maintain a roughly 4% exposure to a minimum volatility basket, which acts as a supplemental hedge to equity exposure. That basket is constructed using a number of quantitative metrics, with the goal of neutralizing a portion of the portfolio's exposure to the volatility factor. Further, a qualitative overlay is applied here to ensure exposure remains targeted toward names where we have positive or neutral fundamental views.

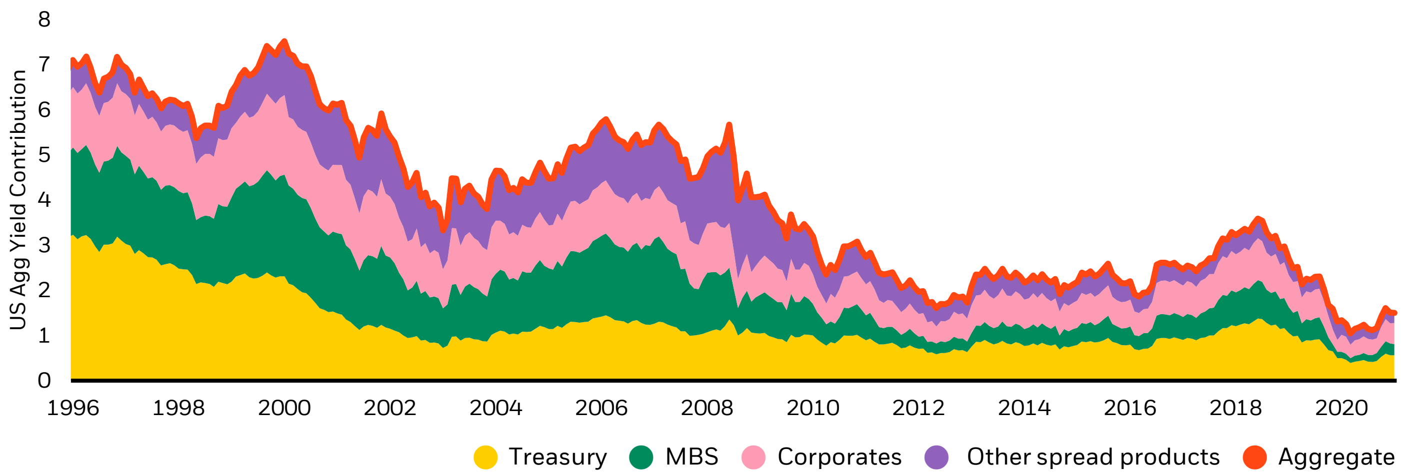
Finally, the team has evolved toward using mean-variance optimization (a framework for allocating capital within a portfolio, so as to attempt to maximize return for a given level of risk taking) and other portfolio construction tools to guide our security weightings, which has actually been a source of alpha in the portfolio over time. These tools help us balance our conviction in a name, the volatility of the security and its tendency to co-move with related securities. So, by incorporating these three factors in a rigorous and repeatable fashion we can help ensure that our portfolio weightings are consistent with the superior risk-adjusted returns we seek.

Rick, based on the discussion we've had today, what are some of the greatest challenges you think investors currently face, and where are you discerning opportunities on the fixed income side of the portfolio?

Interestingly, I think those two questions are related. One of the great challenges for investors today is to solve the problem that I've long referred to as "the scarcity of yield," but at a time when conventional bond indices are delivering some of the lowest all-in yields in history (see Figure 3). When one looks at the developed market sovereign debt space, the yields across the board are extraordinarily low, or even negative in many places, and with the duration risk embedded in government indices, the risk/reward prospects appear bleak. Astoundingly, nearly 28% of the Global Aggregate Index trades at a negative yield, which is close to the record level. So, where does that leave us in fixed income; put simply, the most effective approach in our view is the active management of bond portfolios engaging many sectors in which exposures are not available in the most traditionally used indices.

Figure 3

Only Paltry Yield is Available in the U.S. Aggregate Index (%)



Source: Bloomberg; data as of May 31, 2021. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index. Notes: **Aggregate**: Bloomberg Barclays U.S. Agg Yield-To-Worst (YTW), **Treasury**: Bloomberg Barclays U.S. Agg Treasury YTW, **MBS**: Bloomberg Barclays U.S. MBS Index YTW, **Corporates**: Bloomberg Barclays U.S. Agg Corporate YTW, **Other Spread Products**: Defined as Aggregate Yield minus the weighted yields of the above three indices.

So, while we remain cautious on developed market government bonds, a greater emphasis on lower quality bonds, such as select areas of high yield debt, emerging market sovereigns and securitized debt have been areas of opportunity recently. In all cases, however, we have remained selective. For example, in the high yield bond space, we have tended to focus on BB and single B rated names in certain sectors, rather than on lower-rated CCC bonds. The overall exposure of these off-benchmark fixed income asset classes exceeded 10% of the fund's total assets, as of March 31, 2021, and is one example that demonstrates the differences between Global Allocation and a more traditional "60/40" styled portfolio.

> **In the times we're facing, it's flexible, genuinely active approaches to investment that will be able to both deliver the return investors require to meet their goals, and to do so in a risk-aware manner that earns clients trust."**
>
> **Rick Rieder**
> CIO of Global Fixed Income, Head of Global Allocation Investments

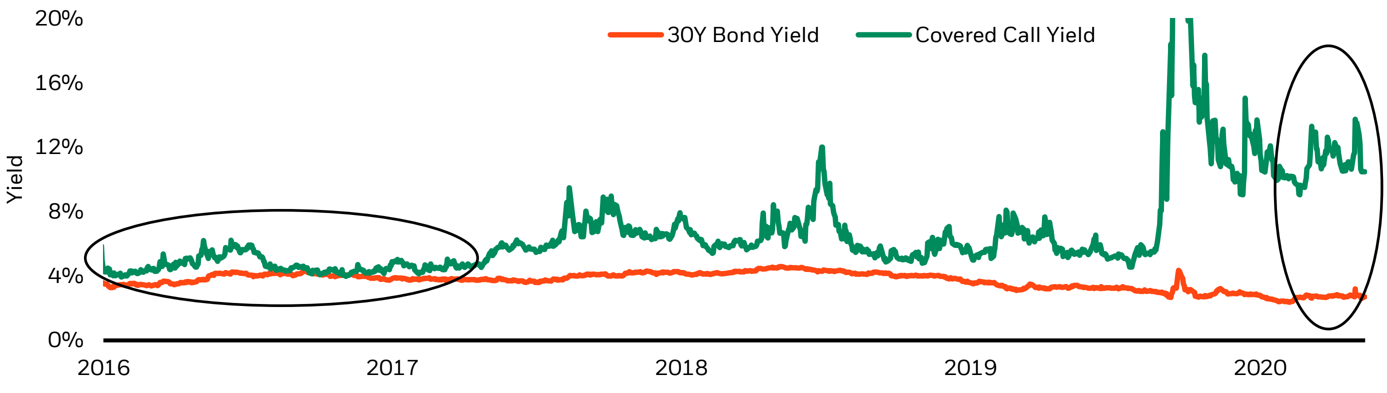
Another great challenge for investors today, as Russ pointed out, is the relative lack of effectiveness of the traditional hedges to equity risk, and most vitally bonds. This is not a small problem, as 2020 dramatically illustrated, since day-to-day equity volatility during periods of extreme market stressed spiked tremendously last year. In fact, 2020 saw 17 trading days in which the equity market (as proxied by the SPX) rose or fell by 4% or greater, whereas for the past 90 years these dramatic market moves have only happened a bit over three days per year, on average. Further, March 2020 witnessed eight consecutive trading days with plus/minus 4% or greater market moves, which is something that has never happened before. In this case, both monetary and fiscal policy rescue efforts stabilized markets (and aided the economy) quite effectively, but the episode underscores the importance of seeking efficient and effective hedges.

To that end, we look to balance exposure to risk assets with a diversified selection of portfolio hedges including duration (where effective), cash, derivatives (most notably options to capture dislocations in volatility), gold-related securities and currency positioning. Still, as we've noted, the hedging capabilities of both bonds and gold has deteriorated of late, so given the current environment, we believe that cash equivalents may be a more efficient means to hedge equity risk compared to short- and intermediate-term U.S. Treasuries, or gold. We are also underweight select currencies that have material exposure to global commodities and/or have a higher beta to the market, such as the Australian Dollar and select Emerging Market currencies, and balanced with exposure to the U.S. Dollar and the Japanese Yen. Our view is that in a "risk off" environment, many of these currencies are likely to underperform certain DM currencies, such as the USD and JPY, and this is another way for the team to augment downside mitigation in the portfolio.

Yet, interestingly, we can also utilize options in the portfolio, and volatility as an asset class, to source income and convex expressions that provide upside potential with very favorable risk/reward characteristics. As a case in point, while long bond yields and covered call yields have historically traded fairly closely with one another; that relationship witnessed immense spread widening over the past year. If we take a sample of seven blue-chip industrials, which have covered call yields superior to their bond yields, we can observe a huge pickup from call (and put) overwriting (see Figure 4), but with comparable equity and bond volatility. Further, we've also seen a great degree of discontinuous pricing in recent years, which is essentially to say that significant amounts of the market's returns have fallen on just 12% of trading days (often coinciding with major macro announcements, such as nonfarm payrolls, CPI or ISM data releases, as well as Fed policy statement days). Given this fact, owning volatility in the right manner, at the right times, can often be a great portfolio enhancement. In this way, we seek to deliver a high degree of convexity into the portfolio, where we can capture more of the upside to markets than downside, when possible, than our asset allocation risk profile might suggest.

Figure 4

Volatility can be Used to Capture Asymmetric Upside Potential, as Well as Manage Risk On the Downside



Sources: Bloomberg and BlackRock, as of November 2020;* Sample blue chip companies were chosen as examples of large market cap companies in the S&P 500 with outstanding debt in the industrials sector and could be interchanged with other companies with similar characteristics. Index returns are shown for illustrative purposes only, it is not possible to invest directly in an index. Past performance is not indicative of future results. The views expressed are those of BlackRock's Office of the CIO of Fixed Income as of February 2021, and are subject to change with market conditions.

I think the beauty of our platform is the disciplined use of tremendous flexibility, which- in a word- necessitates trust. So, every day our team gets to work doing the painstaking fundamental research required to discern which few companies will become the next “fast river” winners. We look for those assets experiencing anomalous capital flows, or disruptive price action for some technical reason not related to underlying fundamentals, to see if value can be found there.

In addition to the portfolio’s core positioning in public equity and fixed income markets, we have the flexibility to take modest positions in private equity deals, secondary market initial public offerings, special purpose acquisition company and private investment in public equity offerings, and can occasionally take minor short equity positions, when our fundamental view and the macro backdrop suggest such a move is warranted. Further, we’re constantly looking for ways to innovate and add flexibility where it might be valuable; one recent example is the guideline adjustment that allows the fund to purchase modest positions in cash-settled Bitcoin futures. By using very limited and highly monitored exposures to Bitcoin futures, we are interested in accessing both the convex and non-correlated characteristics of this novel asset, which are features that can be particularly helpful in portfolio construction today, given the limited usefulness of government bonds as a diversifier.

We run a well-defined and disciplined process that seeks to discern where tomorrow’s markets are heading, not merely understand where they stand today. In the end, the era of just buying dull market beta expressions is over, I think. In the times we’re facing, it’s flexible, genuinely active approaches to investment that will be able to both deliver the return investors require to meet their goals, and to do so in a risk-aware manner that earns clients trust.

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