

1/3 LESS RISK THAN GLOBAL EQUITIES WITH SIMILAR RETURNS SINCE INCEPTION. OVER 300 YEARS COMBINED INVESTMENT EXPERIENCE.

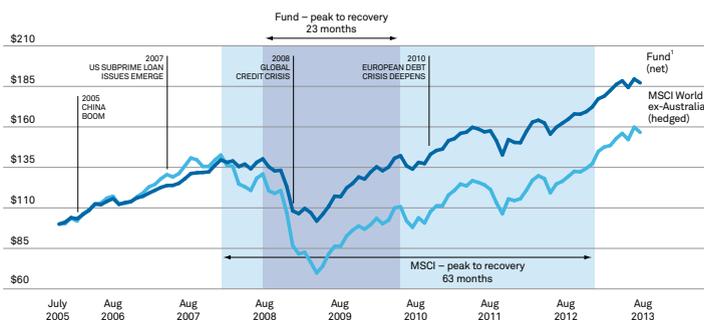
FACTS THAT FIGURE.

Your clients understand that planning for their future comes with an element of risk. Eliminating some of that risk is what's expected of you as an Advisor.

The BlackRock Global Allocation Fund (Aust) is designed to maximise total investment returns, while managing risk. Since inception it's delivered impressive performance with a third less risk than global equities. That's an interesting fact worth noting to your clients.

Of course, past performance is not an indicator of future performance and investors should consider the PDS before investing.

Growth of \$100 since inception to 31/08/2013.



1. Past performance is no indicator of future performance. Returns shown are in AUD. Returns shown do not take into account taxes and are net of a 0.20% management fee and 12.5% performance fee (where applicable).

“SO WHAT DO I DO WITH MY MONEY?”



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Adding foreign flavour to the **INVESTMENT PIE**

In a low-return environment, Australian investors have more incentive than ever to look beyond the local market to boost their returns. Ben Power explains.

Australian investors are struggling to find good opportunities, particularly with government bonds and banks overvalued, and resource stocks hit by a China slowdown. In a low-growth, low-return environment that makes it difficult to find value, investors are being urged to take a global approach.

“In this low-return environment, global investing gives you a bigger set of opportunities to hunt down value,” says Oscar Pulido, managing director and member of the BlackRock Global Allocation Team, which helps manage the BlackRock Global Allocation Fund (Aust).

While the world economic growth is still slow and major markets like the US have run hard, analysts say the global investor can find good returns in beaten-down Japanese and European stocks, and in sectors that are not available in Australia, such as automotive, pharmaceuticals and aeronautics.



88% RETURN OVER 8 YEARS. FACTS THAT FIGURE.

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Sectors

When it comes to sectors, BlackRock is wary of defensive plays such as telecoms and consumer staples that investors – seeking safety and dividend yields as proxies for fixed income – have bid up to premium valuations.

Oscar Pulido, managing director and member of the BlackRock Global Allocation Team, says valuations in those sectors are unsustainable.

“Why pay for a low-growth company when you can pay less in multiple for more cyclical, high-growth type stories?” he asks.

BlackRock likes health-care and energy stocks. Within health-care, Pulido singles out pharma stocks, in the US and some areas of Europe. He also notes that demand for health care is surging in emerging markets, and the fund has 1 per cent invested in hospital companies in South-East Asia.

BlackRock also likes the energy sector. It favours European integrated oil companies that are trading at a discount to their US counterparts. However, in other areas of the energy sector, it likes US refiner stocks, given the advantage these companies have in being able to buy oil at a discount to the Brent crude oil benchmark.

While there are significant opportunities in Europe, Japan and a number of sectors around the world, the story at home is more muted.

Chad Padowitz, chief investment officer of international value investor Wingate Asset Management, says that, yes, local banks are operating in an exceptionally benign environment and don't have any issues around bad debts, which is allowing them to make good profits.

“But the markets are applying a very high multiple to that,” he says. “Their price-to-book ratio is amongst the highest in the world.

“They're expensive. If anything goes wrong, even slightly, they're going to be impacted.”



Above: Oscar Pulido

Wherever Pulido travels around the globe – whether it's Europe, the Asia-Pacific, the US or South America – investors prefer investing at home.

“It's what they know – companies they know; it's where they grew up and it feels comfortable to them,” he says.

International investing does carry some risks, including currency risk. For this reason, many investors choose to hedge their portfolios, and the BlackRock Global Allocation Fund (Aust), for example, is effectively hedged against \$A movements.

RELATIVELY CHEAP

However, the strong \$A makes international investments relatively cheap; and unhedged international assets can provide an inbuilt “shock absorber” in portfolios: when global markets sell off, the \$A usually falls too, which boosts the value of offshore holdings.

Chad Padowitz, chief investment officer of international value investor Wingate Asset Management, says that over time, currency fluctuations even out and are not a major factor.

A global approach to investing brings other benefits to



GLOBAL STRATEGY: 24 YEARS & COUNTING FACTS THAT FIGURE.

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A GLOBAL APPROACH TO INVESTING BRINGS OTHER BENEFITS TO INVESTORS, PARTICULARLY DIVERSIFICATION. PERHAPS THE STRONGEST ARGUMENT IN FAVOUR OF INTERNATIONAL INVESTING IS THE CONCENTRATION OF THE AUSTRALIAN MARKET

investors, particularly diversification. Perhaps the strongest argument in favour of international investing is the concentration of the Australian market.

Padowitz says Australia-focused investors think they are making a country-based asset allocation decision, but they are really betting on the performance of retail banks and resource stocks.

“To significantly skew to just those two sectors seems quite extreme,” he says, adding that banks are overvalued and resource stocks are exposed to a slowdown in China.

Chris Marx, senior portfolio manager of global equities at AllianceBernstein, says investors in Australia don't have exposure to attractive sectors, such as autos and aerospace. He says that while post-GFC car sales slowed, auto companies have since restructured and have a lower cost structure in place, so they can produce profits at much lower production levels. With cars getting older, pent-up demand from buyers has boosted the volume of auto production. Auto companies, and parts suppliers, will continue to benefit when confidence and demand return.

Similarly, the aerospace industry is benefiting from a growing middle-class in emerging markets, which is demanding more air travel; that, in turn, is boosting demand for aircraft.

“We see sustained demand for aircraft for a while,” Marx says, and that will flow through to engine manufacturers.

While ideas like autos and aerospace are appealing, “it's tough to access if you limit yourself to a single country or region,” Marx says.

OUTSIDE OPPORTUNITIES

Australian investors, therefore, need to be more aware of investment opportunities that might exist outside their home market.

“There are many areas that look pretty compelling from a price perspective,” Pulido says.

At the regional/country level, Pulido says value investors are being paid to take risk, particularly in Europe and Japan, but it is time to take profits in US stocks.

Japan seems to be willing to make structural changes to its economy, he says, which could help unlock its stockmarket, which has been cheap for a very long time. Despite the Japanese rally this year, Pulido says the price-earnings (PE) and price-to-book (PB) ratios in Japan are historically cheap. He likes Japanese

auto stocks, which are benefiting from local and Chinese demand.

There has also been an improvement in economic data from Europe, which could signal an inflection point, Pulido says. He says that one of the most distressed European economies, Spain, just posted a positive quarter of GDP growth. But while there is an improving economic picture, the market trades at a discount.

“We'd argue that discount won't exist forever,” he says.

Pulido says the BlackRock Global Allocation Team has been adding to its industrial sector holdings.

By contrast, BlackRock is underweight and reducing its exposure to US stocks, including telecoms. At 14 times forward earnings, US stocks don't look compelling on a relative basis, he says.

“That's if you believe the forward earnings used,” Pulido says, adding that BlackRock believes estimates are too optimistic and have room to come down.

“It's time to start taking profits in US equities.”

LESS CONVICTION

There is less conviction when it comes to emerging markets. In the past two years, BlackRock has cut exposure to emerging markets, including countries such as China and Brazil. But that stance could start to change, Pulido says. He says a lot of investors are “starting to throw the towel in” when it comes to emerging markets. “That could open up some windows of opportunity,” he says, though he adds that it is not a homogeneous category. BlackRock is increasing its weighting to some countries, such as South Korea.



TYPICALLY 700 SECURITIES, 40 COUNTRIES. FACTS THAT FIGURE.

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There are also sector-based opportunities outside Australia. Padowitz says that in a slow-growth environment, where the pie isn't expanding, industries and sectors are fighting each other for scarce dollars. Investors need to get exposure to companies that are taking "shares of dollars". The health care sector, for example, might be taking dollars from consumer spending.

"As an investor, you need to find which industries and which companies within those [industries] are going to be able to take market share – by that I mean 'share of dollar,'" he says. "The more places you can look at and the more industries you're allowed to explore, the greater the odds of finding one."

AS AN INVESTOR, YOU NEED TO FIND WHICH INDUSTRIES AND WHICH COMPANIES WITHIN THOSE [INDUSTRIES] ARE GOING TO BE ABLE TO TAKE MARKET SHARE – BY THAT I MEAN 'SHARE OF DOLLAR'

The outlook for resources is also uncertain as China shifts to a service- and consumer-oriented economy. Padowitz says it will be less capital-intensive, which will impact on prices, or at least demand, of commodities.

"That has an impact on BHP and Rio," he says.

"That's dead money for a while on that side [resources], and we think the banks are expensive," he says.

Pulido agrees that Australia is particularly exposed to a slowdown in China as it transitions to a more consumer-focused economy.

"How that affects the Australian economy and stockmarket is really hard to know," he says. "But we challenge the Australian investor to say they are positioned for that."

The best way to be positioned is to diversify, and that includes looking globally for opportunities. ■

Fixed income

Global investing does not just provide exposure to global equities, but also global fixed income. However, Oscar Pulido, managing director and member of the BlackRock Global Allocation Team, says that BlackRock continues to favour equities.

The BlackRock Global Allocation Fund (Aust) is 63 per cent invested in equities, 20 per cent in bonds and 17 per cent cash. (The fund's reference benchmark is 60 per cent global equities and 40 per cent global fixed income.)

The BlackRock Global Allocation Team views the cash as an extension of fixed income; it is effectively nil-duration fixed income.

"It's a way to neutralise interest-rate sensitivity in the interest-rate portfolio," Pulido says.

While fixed-income valuations in general are unattractive, he says that there are little pockets of value. International investing allows the likes of BlackRock to seek them out.

Half of BlackRock's fixed-income portfolio includes what Pulido dubs "idiosyncratic" investments. That includes bank loans, investment-grade floating-rate corporate notes, Australian government bonds, and convertible bonds.

Pulido says the BlackRock Global Allocation Fund (Aust) even owns debt issued by the Queensland Government. "It shows how broad a net you can cast to try and find ideas," he says.

The other half of the fixed-income portfolio is invested in sovereign bonds, including US Treasuries, German bunds and UK gilts.

"It's really just a protection against falling equity markets," Pulido says. "You have to think about downside protection of capital. It's just to make sure we're not completely all in one asset class and in one directional trade. If that trade is wrong, what's going to help you on the downside?"

Still, he says, "with equities, we feel like you can find pockets of the world where there is true intrinsic value".

Chris Marx, senior portfolio manager of global equities at AllianceBernstein, agrees that stocks are a better bet. Though it's uncertain where rates will head in the near term, "over the long term they're going up; certainly in the US, Europe, Japan and elsewhere – they just can't be zero forever".

Marx says the low rates are putting pressure on savers, and when he talks to clients, there is increasing interest in equities as a source of return.

"They've largely been shunned by many investors in the last five years," he says. But he notes the equity risk premium is "quite elevated today".

"The compensation for taking risks on equities is very elevated," he says. "It feels as if the long and pronounced favouring of fixed income is starting to show signs of lifting."



\$4.1 TRILLION. BLACKROCK GLOBAL AUM.
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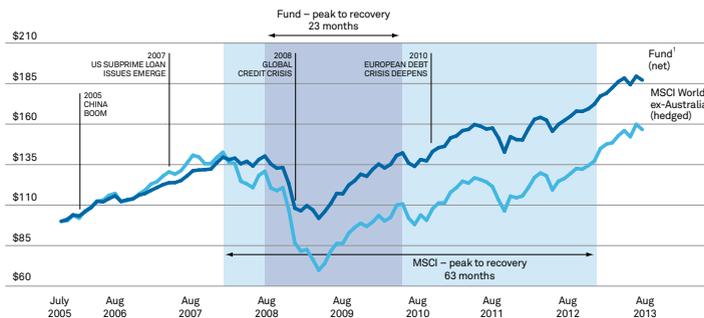
88% RETURN OVER 8 YEARS.
TYPICALLY 700 SECURITIES
ACROSS 40 COUNTRIES.

FACTS THAT FIGURE.

Clients are demanding more from you. They're planning for retirement more rigorously. And the BlackRock Global Allocation Fund (Aust) has to date delivered impressive long-term returns. These are the facts.

Now is the time to consider a powerful formula that seeks to maximise total investment returns, while managing risk by actively investing in global equities, fixed income and cash equivalents.

Growth of \$100 since inception to 31/08/2013.



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A GLOBAL PORTFOLIO SOLUTION.

The BlackRock Global Allocation Fund (Aust) has a proven long-term investment philosophy. A major factor in this is our unconstrained search for opportunities. Of course, past performance is not an indicator of future performance and investors should consider the PDS before investing.

Typically 700 Securities across 40 Countries: makes this fund a go-anywhere, flexible investment solution across multiple asset classes, sectors and capital structures.

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