BlackRock

Market Advantage Strategy Fund (Sterling)

MONTHLY FACTSHEET

Capital at risk

All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed.

Fund details

Umbrella	Index Selection Fund
Domicile	Dublin
Fund structure	UCITS
Fund inception date	13 September 2007
Unit class inception	14 May 2013
Benchmark	3m GBP cash
Total Fund size (m)	£292 million
Leverage (as a % of fund capital)	193%
Minimum initial investment	£1 million
Min. subsequent investment	£100,000
Fees	Available on request
Available unit classes	Accumulating and Distributing
Administrator	JP Morgan Administrator Services (Dublin) Limited
Liquidity	Daily
Dealing deadline	Before 10:00am (UK time) on Dealing Day
Settlement	T+3
ISIN	IE00B7WF0L28
Bloomberg	BGIMAEG
SEDOL	B7WF0L2

	Fund
Annualised volatility – ITD	8.95%

Fund overview

The Fund seeks to provide a total return, taking into account both capital and income returns over the long term. This objective will be effected through strategic exposure to multiple asset classes which, through diversification, is expected to generate growth with comparatively lower risk than exposure to worldwide equities alone. Diversification and asset allocation may not fully protect from market risk.

The Fund is actively managed and the Investment Manager has discretion to select the Fund's investments and is not constrained by any benchmark in this process. The 3-Month Sterling Overnight Indexed Average (SONIA) Index should be used by investors to compare the performance of the Fund.

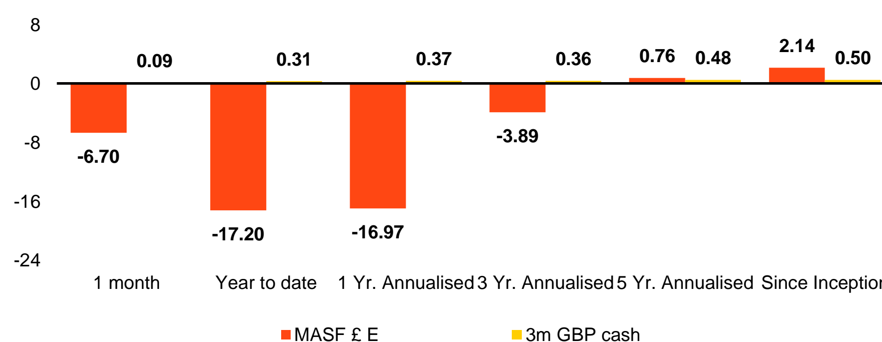
Key benefits

- Diversification through strategic exposure to multiple asset classes including equities, fixed income, property companies and commodities globally.
- Targets comparatively lower risk than investing in worldwide equities alone.
- Managed exposure during extreme market conditions and reduced downside risk. While the investment approach seeks to control risk, risk cannot be eliminated.

Key risks are highlighted at the base of this page.

NET total returns in GBP (%)	14/05/2013 – 31/12/2013	2014	2015	2016	2017	2018	2019	2020	2021
Fund	-5.81%	11.52%	-3.16%	10.31%	11.63%	-6.13%	20.80%	0.85%	2.32%
Benchmark	0.35%	0.55%	0.57%	0.50%	0.36%	0.73%	0.81%	0.29%	0.09%

% returns GBP

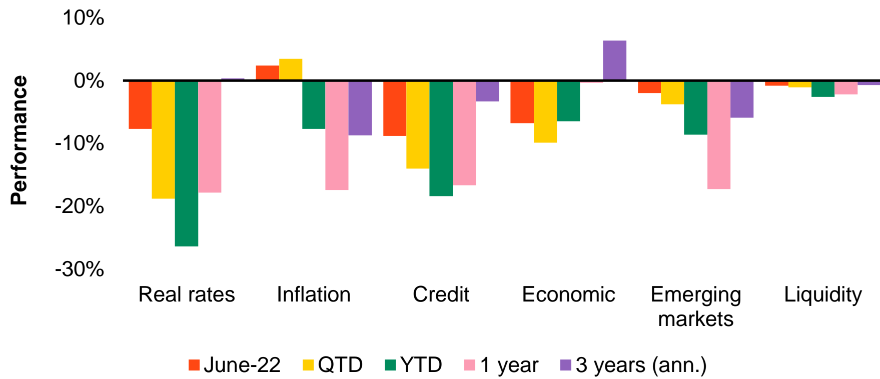


The figures shown relate to past performance. Past Performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. Source: BlackRock. Performance shown as at 30 June 2022, for the E (S9) share class, in GBP on a NAV prices basis with income re-invested. Performance figures are calculated net of annual fees and expenses. Risk is defined as annual standard deviation of monthly returns. The strategy in this fund was launched on 31/03/2009. The share class was launched on 14 May 2013. Ahead of the retirement of LIBOR, the performance benchmark switched GBP reference rate from LIBOR to SONIA on 29/11/2021.

Key risks

- Credit risk, changes to interest rates and/or issuer defaults will have a significant impact on the performance of fixed income securities. Potential or actual credit rating downgrades may increase the level of risk.
- The value of equities and equity-related securities can be affected by daily stock market movements. Other influential factors include political, economic news, company earnings and significant corporate events.
- Derivatives are highly sensitive to changes in the value of the asset on which they are based and can increase the size of losses and gains, resulting in greater fluctuations in the value of the Fund. The impact to the Fund can be greater where derivatives are used in an extensive or complex way.
- Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.
- Credit Risk: The issuer of a financial asset held within the Fund may not pay income or repay capital to the Fund when due.
- Liquidity Risk: Lower liquidity means there are insufficient buyers or sellers to allow the Fund to sell or buy investments readily.

Risk Factor Performance — June, 3 months, YTD, 1 year and 3 years (ann.)[1,2]

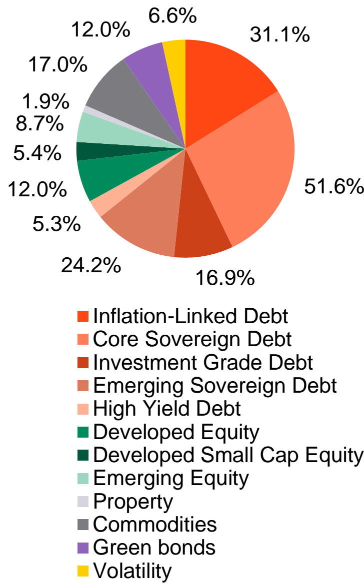


1 Please refer to page 1 for more information about Fund performance

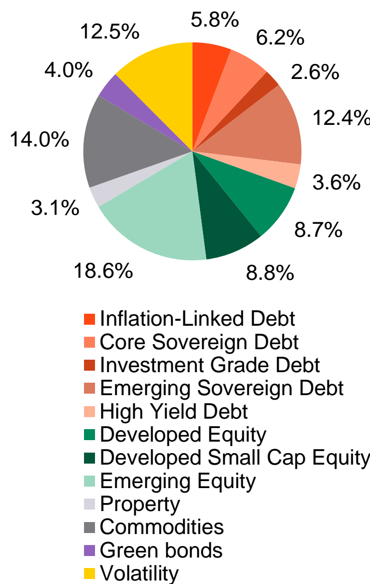
2 Risk Factor returns based on BlackRock proprietary model. This may not match the performance attribution of the fund due to differences in the underlying holdings.

Source: BlackRock as of 30 June 2022

Capital allocation
(30 June 2022)

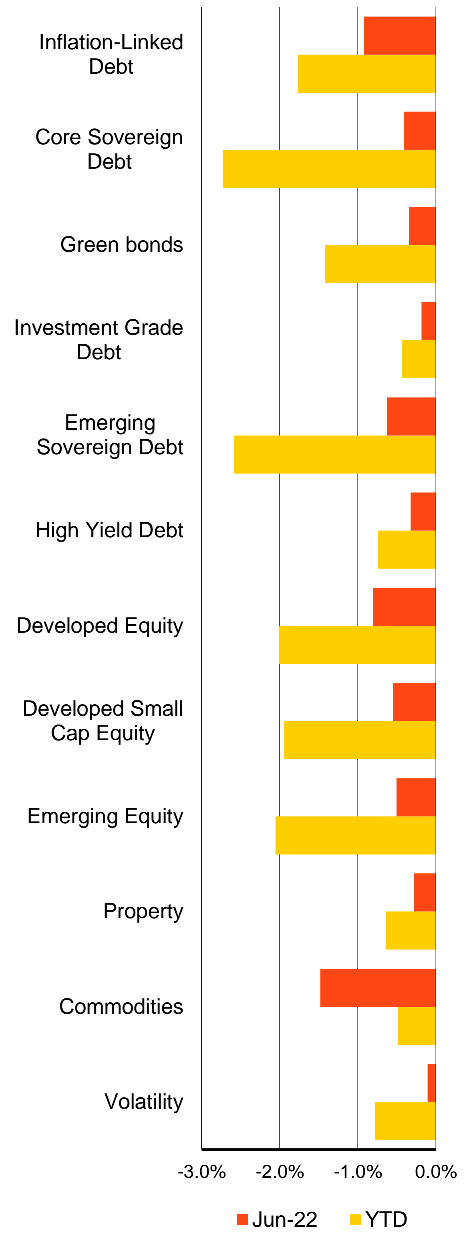


Risk allocation
(30 June 2022)



Source: BlackRock as of 30 June 2022. Numbers may not add up to 100% due to rounding.

Performance attribution as of 30 June 2022



Source: BlackRock as of 30 June 2022

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Market review

June and the second quarter of 2022 saw a continuation of themes from earlier in the year, which saw all major asset classes post negative returns over the period. There was a high degree of focus upon the actions and forward guidance of central banks, as policymakers look to combat record inflation across their respective economies. Developed market sovereign bond yields continued to move higher as markets continued to price in evermore rate hikes for the rest of this year and beyond.

The more aggressive monetary policy and increasingly hawkish comments from central banks raised questions as to whether or not the tightening financial conditions would choke off economic growth. These concerns, alongside a growing cost of living crisis for consumers and heightened geopolitical tensions, contributed to growing fears of a recession highlighted by deteriorating economic indicators and yield curve inversions. As a result, there was a combined, widespread fall in risk assets. Equities were down broadly, with large caps outperforming small caps and Value stocks beating Growth stocks once again. Emerging equities were down too but fared slightly better, driven by increasingly positive sentiment in China. Corporate credit spreads also finished much wider over the month and quarter, as did credit spreads for emerging markets.

There were similar moves across alternative asset classes as both listed real estate and diversified commodity indices posted losses too over the month and quarter. Within commodities, declines across industrial metals, precious metals and agricultural products were driven by those same recessionary fears, while the energy sector was the only outperformer over the second quarter.

Macro factor highlights

Market Advantage finished down -6.7% in June to finish the second quarter -12.5% (GBP E share class, net of fees and expenses).

The **Economic** factor was the leading detractor in June and the second quarter. Developed large cap equities fell heavily over both periods as global growth concerns continued to weigh on market sentiment. The Value-Growth rotation continued as equity valuations were squeezed with the increase in interest rate expectations. All sectors finished down, but the relative outperformers included the Energy sector which has benefitted from higher commodity prices and the Consumer Staples sector as investors sought out large cap companies with more stable pricing power in these turbulent times. Listed real estate was similarly down over the month and quarter, causing additional losses for the portfolio. While commodities had provided a source of return in 2022’s heightened inflationary environment, the recessionary fears in June saw steep declines across all sectors to cause losses overall for the second quarter.

The **Real Rates** factor was the second worst performing over both time periods. Persistently high inflation across developed market economies led to further interest rate hikes, causing losses for the portfolio’s inflation-linked bonds. In the US, the Federal Reserve hiked rates 50bps in May and 75bps in June, in an attempt to bring down inflation which has steadied at 8.6% (US CPI). Slightly less aggressively, the Bank of England hiked 25bps in both May and June while the European Central Bank paved the way for its first rate hike in July. Under the pressure of a potential energy crisis, the UK and Europe face more inflation to come, and market priced in further expectations for more interest hikes in the near-term.

For the second month running, the **Inflation** factor was positive and was the sole factor to finish up for the second quarter. Breakeven yields continued to collapse in June and Q2, as investors became more bearish on the outlook for the global economy. With many policymakers determined to combat inflation with monetary tightening, investors worry that they could go too far and tip economies into recession. As a result, despite the near-term challenges, long-term inflation expectations fell in the US, leading to gains for 10-year breakeven yields.

Elsewhere, the **Credit** factor detracted over June and Q2. Alongside the fall in other risk assets, investment grade credit spreads widened over the quarter from 67bps to 101bps in the US and from 73bps to 118bps in Europe. Losses were more pronounced in high yield markets as investors moved away from the riskiest parts of the market and spreads widened over 200bps to 580bps in both the US and European markets.

The **Emerging** factor also detracted over June and Q2. There were relative gains from equity positions as emerging market equities outperformed their developed market counterparts over both periods, as the easing of strict COVID-19 restrictions in China and rebound in regional production lifted investor sentiment in Asia. However, losses from emerging market debt positions (both hard and local currency) caused losses overall for the factor.

Finally, the **Liquidity** posted minor losses over both time periods. Small cap stocks slightly underperformed their large cap counterparts as investors sought safety in larger companies with more stable pricing power during the freefall in equities. Additionally, volatility strategies posted small losses as volatility across equity and commodity markets increased over the period.

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Extreme monitors and risk management decisions

The Risk Tolerance Indicator continued to leg down at -24%, having started the month at -17% and quarter at +12%. Diversification also fell sharply into the middle of June as correlations across assets rose, with the Diversification Ratio finishing at 1.9, well below its long-term average. The PTI remains elevated at 0.23, a reflection of the unusual market conditions and increased tail risks. Finally, from a valuations perspective, the Emerging, Credit and Real Rates factors look cheap, while the Inflation, Economic and Liquidity factors appear fairly valued overall.

Positioning/Outlook:

Throughout the year, various tilts have been made to position the portfolio for a higher volatility regime defined by more uncertainty and persistent inflation. This began with the underweight duration position that the portfolio had held throughout 2021 and into this year, to reduce the portfolio's sensitivity to rising rates as central banks were expected to quickly normalise monetary policy in an attempt to fight inflation. The portfolio has also benefitted from a swaption programme to protect against spikes in bond yields.

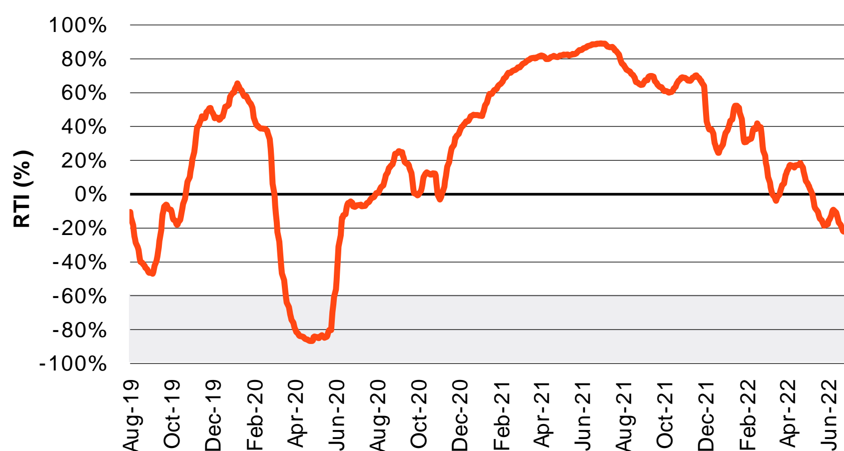
Following the invasion of Ukraine, aside from the tragic consequences of the war, the largest effect on financial markets was higher and more persistent inflation. As such, we tilted the fixed income exposure into linkers which offer inflation protection, funded from nominal bonds. Additionally, allocations to commodities were increased given their role as a hedge to both inflation and prevailing geopolitical risks.

The portfolio has also maintained a long-term tilt away from credit exposures, initially motivated by the expensiveness of credit spreads and then maintained due to an increase in tail risks; we similarly trimmed the exposure to volatility strategies earlier in the year in an effort to decrease tail risk. Up until now, this risk had been reallocated to other cyclical assets such as equities and commodities which had more room to run in the current inflationary environment.

Over the last few weeks, downside risk indicators have moved toward a more extreme level. As a result, action has been taken to reduce growth risk in the portfolio. The impact of this change to portfolio positioning includes cutting exposure across developed large cap, small cap, and emerging equities, as well as property and commodities.

Source: BlackRock as of 30 June 2022

Risk Tolerance Index (RTI) — through June 2022[3]



Source: Bloomberg, BlackRock, unless otherwise stated. All data as at 30 June 2022, unless otherwise stated. [3] The RTI (Risk Tolerance Index) is a proprietary BlackRock index that aims to forecast potential low frequency, high loss events. The level of RTI is used by the Investment Committee together with risk factor valuation data and macro-economic information in order to determine the risk level of the Fund.

Risks

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. The investor may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Specific fund risks

Exchange rate risk: The return of your investment may increase or decrease as a result of currency fluctuations.

Liquidity risk: The Fund's investments may have low liquidity which often causes the value of these investments to be less predictable. In extreme cases, the Fund may not be able to realise the investment at the latest market price or at a price considered fair.

Financial Markets, Counterparties and Service Providers: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Derivative Risk general: The Fund uses derivatives as part of its investment strategy. Compared to a fund which only invests in traditional instruments such as stocks and bonds, derivatives are potentially subject to a higher level of risk.

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