Risk Management & Portfolio Construction

BlackRock

Defining Risk

All investments carry a degree of risk, yet risk can mean different things to different people. In the financial industry, risk is often measured by the standard deviation of returns, but to an end-investor, risk can also be thought of as the probability of financial loss. Understanding the different interpretations of risk and having a robust risk management framework is therefore crucial to constructing an optimal portfolio that suits the client's appetite for risk. After all, risk is not inherently bad and successful investing is ultimately about *managing* risk, not avoiding risk.

Deconstructing risk

Given the wide spectrum of how investors define risk, it is important to assess risk from multiple dimensions. Specifically, the ability to decompose headline risk into granular risk factors, and measure the sensitivity of these factors to certain market scenarios can help investors to gain transparency into the drivers of risks and minimise those risks that are not associated with added returns. BlackRock's Aladdin platform can help investors gain a comprehensive view of portfolio risk as illustrated below.

Food for thought

A useful analogy for describing risk in a portfolio is the concept of diet and nutrition. A balanced diet typically consists of major categories of food like grains, vegetables and protein. But simply asking for protein could get you either steak or tofu, which could change the flavour of the entire meal. Similarly, in the context of a portfolio, the same asset class (e.g. equity) could have similar headline risks but very different risk characteristics in terms of its country, sector and style exposures. A bottoms-up analysis to risks offers a more specific and accurate view of risk, which helps prepare the portfolio clients really want.

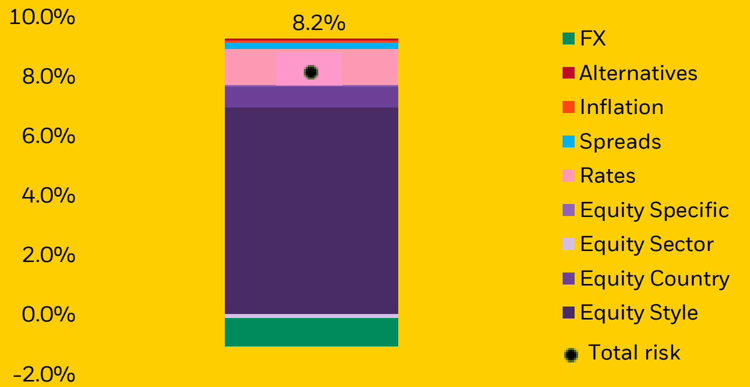
For illustrative purposes only.

Equity Risk Factors

Sector	100 bps
Country	75 bps
Style	53 bps
Idiosyncratic	300 bps

Underlying risk drivers in a multi-asset portfolio

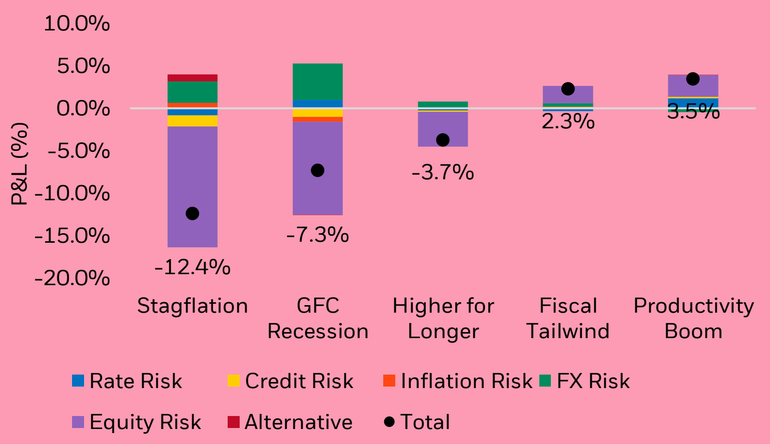
Applying granular risk factors to multi-asset portfolios can help investors better understand the composition of risks, and scale risks appropriately. The iShares Enhanced Strategic Multi-Asset Balanced Model, for example, has exposure to multiple factors such as equity country, rates, spreads, alternative and FX risk.



Source: BlackRock Aladdin, as of 3 April 2024. Investment involves risk. It should not be construed as investment advice and is not intended as an endorsement of any specific investment. There is no guarantee that a positive investment outcome will be achieved. While proprietary technology platforms may help manage risk, risk cannot be eliminated.

The power of stress testing

Evaluating the robustness and resilience of the portfolio in different market environments is an important mechanism to enhance the risk oversight process and help align clients for the road ahead.



Source: BlackRock Aladdin, as of 3 April 2024. Stress test results illustrate impact of the portfolio's baseline allocation during different market conditions. There is no guarantee that stress testing will eliminate the risk of investing in a portfolio or a fund or a strategy.

Rethinking risk

Investors shouldn't try to avoid risk, but prepare for it and develop a disciplined approach to risk management. Analysing the underlying risk factors of a portfolio can increase one's understanding of the drivers of risks and ensure that any risk being taken is intentional, diversified and complementary in the context of a multi-asset portfolio.

IMPORTANT INFORMATION

Issued by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975, AFSL 230 523 (**BIMAL**) for the exclusive use of the recipient, which warrants by receipt of this material that it is a wholesale client as defined under the Australian Corporations Act 2001 (Cth).

This material provides general advice 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. Refer to BIMAL's Financial Services Guide on its website for more information. 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.

Information provided is for illustrative and informational purposes and is subject to change. It has not been approved by any regulator. This material is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. BIMAL is a part of the global BlackRock Group which comprises of financial product issuers and investment managers around the world.

BIMAL is the issuer of financial products and acts as an investment manager in Australia**.** BlackRock model portfolios themselves are not funds issued by BIMAL. They are offered through third party platform providers which are not affiliated with BIMAL. These materials must be preceded and accompanied by a product disclosure statement (PDS) issued by the third party platform providers that are responsible entities and product issuers of model portfolios. BlackRock model portfolios included in these materials are provided for illustrative and educational purposes only. They do not constitute research, and they are not personal advice from BIMAL to any client of a registered financial adviser. They are intended for use only by a registered financial adviser with other information as a resource to help build a portfolio or as an input in the development of investment advice for a registered financial adviser's own clients. Such registered financial advisers are responsible for making their own independent judgment as to how to use BlackRock model portfolios included in these materials. BIMAL is not responsible for determining the appropriateness or suitability of any BlackRock model portfolios, or any of the securities included therein, for any client of a registered financial adviser. BlackRock model portfolios include investments in units of funds. Investors will indirectly bear fund expenses in respect of portfolio assets allocated to funds. Information concerning BlackRock model portfolios – including holdings, performance and other characteristics – may vary materially from any portfolios or accounts derived from BlackRock model portfolios included in these materials. There is no guarantee that any investment strategy or model portfolio will be successful or achieve any particular level of results.

BIMAL is the responsible entity and issuer of units in the Australian domiciled managed investment schemes referred to in this material, including the Australian domiciled iShares ETFs. Any potential investor should consider the latest product disclosure statement (**PDS**) before deciding whether to acquire, or continue to hold, an investment in any BlackRock fund. BlackRock has also issued a target market determination (**TMD**) that describes the class of consumers that comprises the target market for each BlackRock fund and matters relevant to their distribution and review. The PDS and the TMD can be obtained by contacting the BIMAL Client Services Centre on 1300 366 100. In some instances the PDS and the TMD are also available on the BIMAL website at www.blackrock.com/au. An iShares ETF is not sponsored, endorsed, issued, sold or promoted by the provider of the index which a particular iShares ETF seeks to track. No index provider makes any representation regarding the advisability of investing in the iShares ETFs. Further information on the index providers can be found in the BIMAL website terms and conditions 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. Except where contrary to law, BIMAL excludes all liability for this information. 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.

BlackRock.