

BlackRock

Discovery

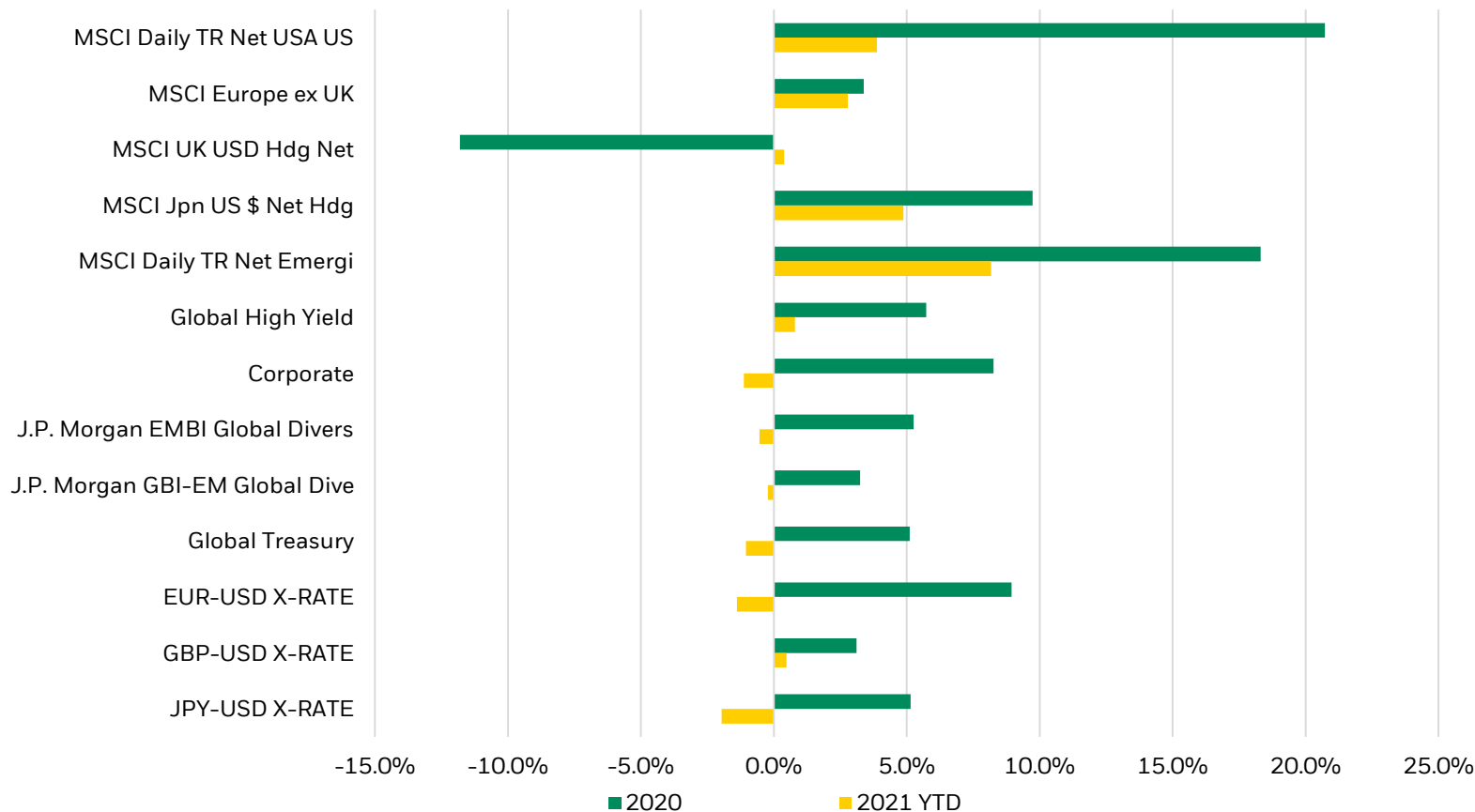
Portfolio Allocation

** Please note that the Balanced strategy referenced in this report relates to the Discovery Global Moderate Portfolio*

Market Update

EM and Japanese equities leading YTD. In fixed income only HY is up, while global treasuries are the laggards

Asset performance 2020 and 2021 YTD

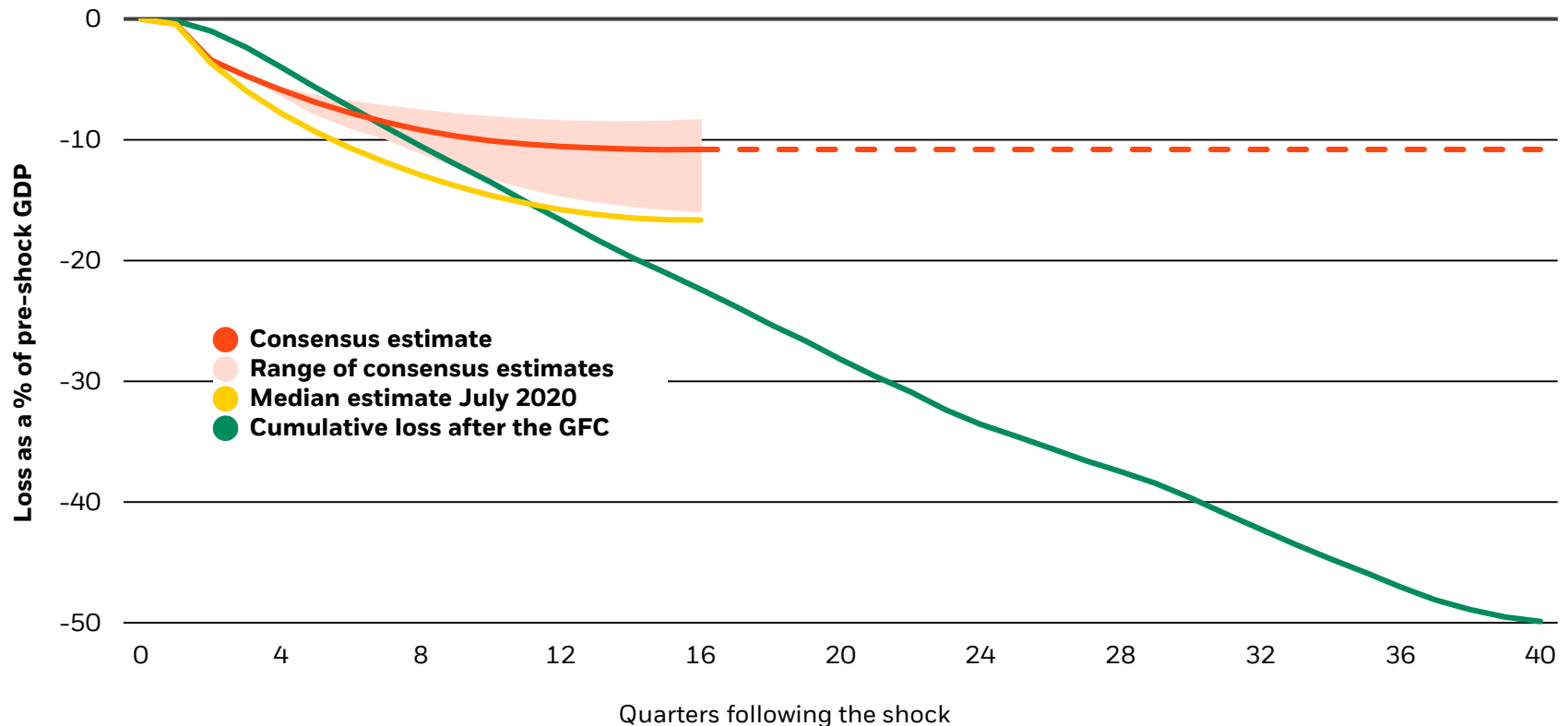


Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. Source: BlackRock Investment Institute. Data as of 5 Feb 2021. Bars indicate returns for the time period given in the legend. Returns are given for asset classes in USD hedged terms, except for EM Equities and EM debt (non-hedged).

Covid-19 is more like a natural disaster shock

With the vaccine news, we have even greater visibility on how the cumulative activity loss will likely be limited to just a fraction of that seen after the global financial crisis (GFC), in our estimate.

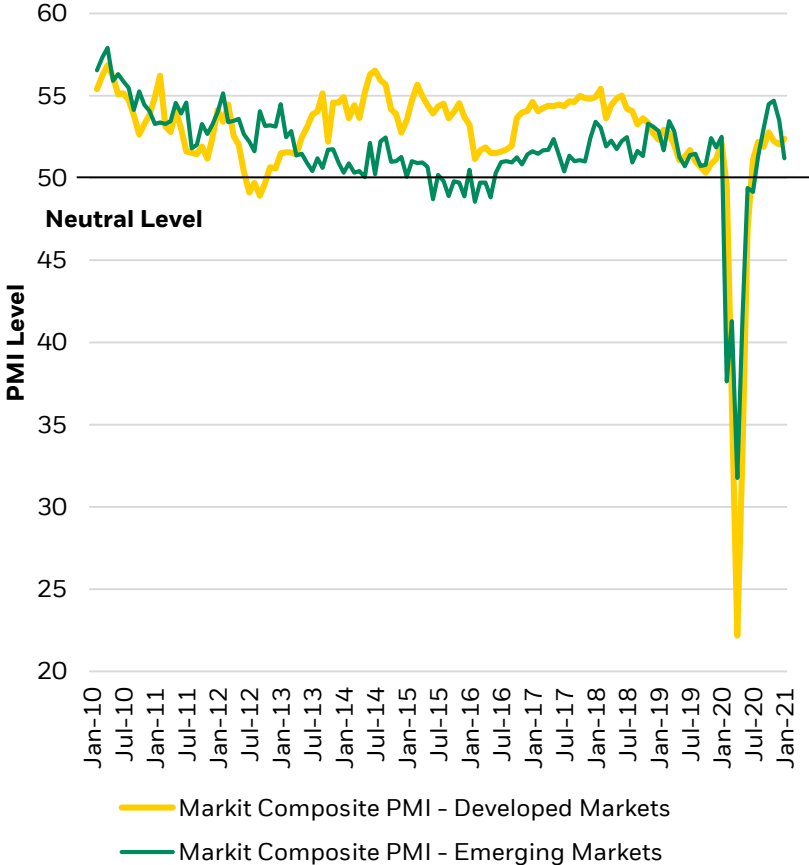
US GDP shortfall after the GFC vs. estimated loss from the Covid shock



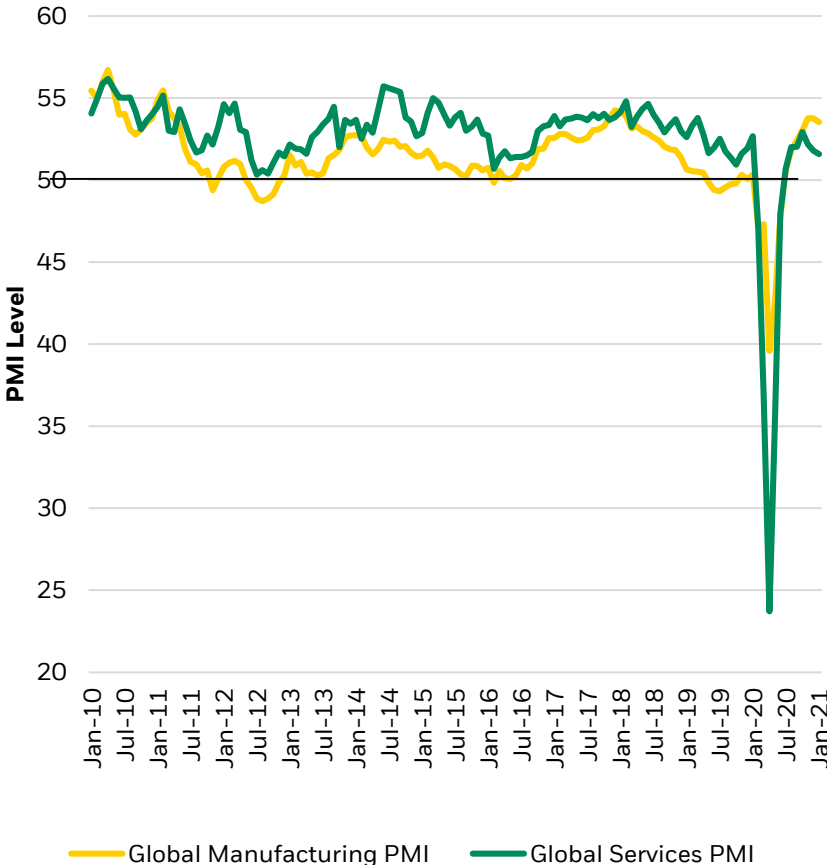
Sources: BlackRock Investment Institute, with data from Reuters News, December 2020. Notes: The green line shows the cumulative economic loss, or the difference between estimated U.S. nominal GDP at the time and where it would have been had it grown at its pre GFC trend level (3.4% a year) from end 2007 onwards. The solid orange line shows the latest estimates of the cumulative economic loss from the Covid 19 shock, measured from a starting point of end 2019 and assuming pre crisis trend growth of 3.35% (a 20 year pre Covid average). GDP estimates reflect the median from a Reuters poll of economists published on Sept. 25, 2020. Poll data are only available for 16 quarters. We assume a return to trend growth after this time (orange dotted line). The yellow line shows the cumulative loss estimates as of July 2020. For illustrative purposes only. There is no guarantee that any forecasts made will come to pass. The hypothetical scenario is subject to significant limitations as the pandemic is evolving and we are still trying to understand the potential for more extensive activity shutdowns.

Strong rebound in global PMIs has stalled as services weakened

Global (EM + DM) Manufacturing and Services PMI



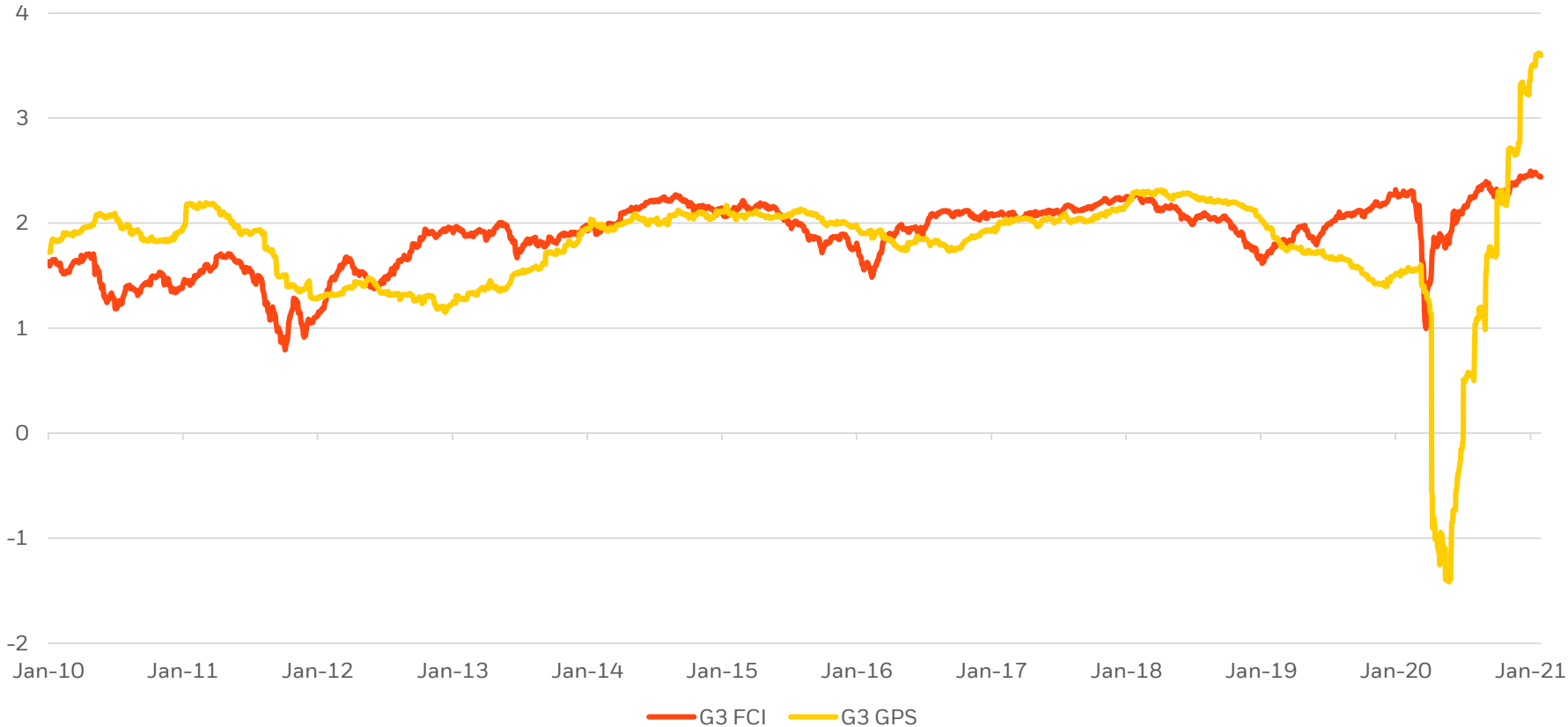
Composite PMI (Manufacturing + Services) for Developed Markets and Emerging Markets



Source: BlackRock Investment Institute, with data from Bloomberg, JP Morgan and Markit, as of 29th January 2021. The charts represent the level of Purchasing Manager Index.

Financial conditions remain very accommodative and consistent with a continuation of economic expansion

BlackRock Financial Conditions Indicator (FCI) and BlackRock Growth GPS

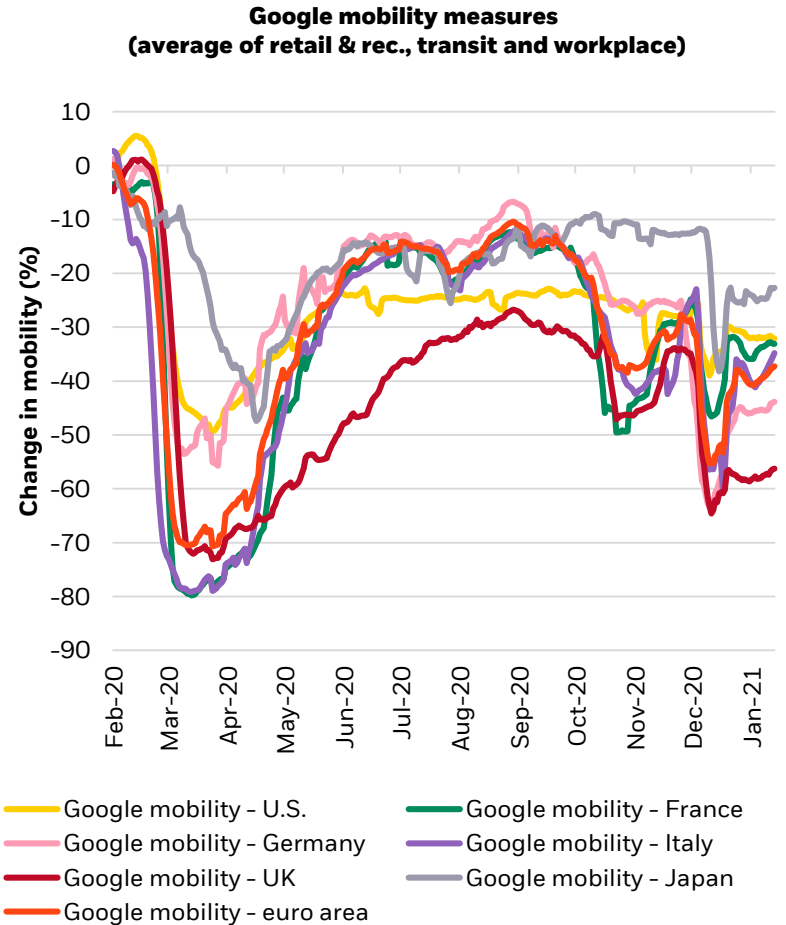
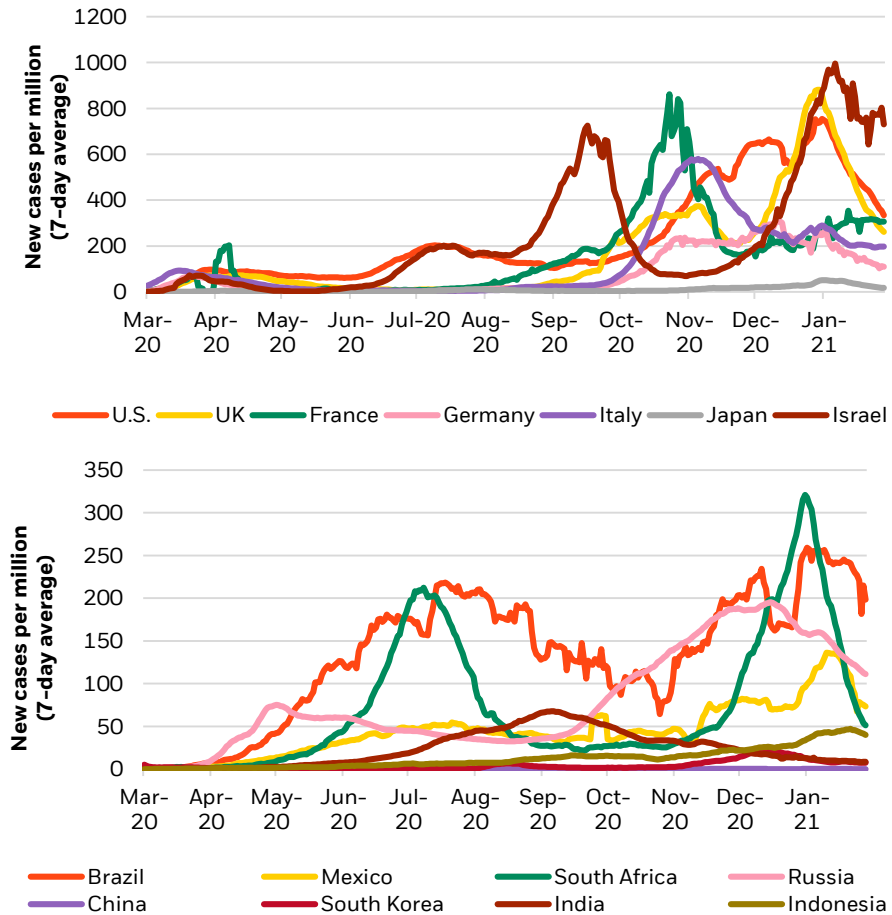


Forward-looking estimates may not come to pass.

Source: BlackRock Investment Institute, with data from Bloomberg and Consensus Economics, 29th January, 2021. Notes: The BlackRock Growth GPS shows where the 12-month forward consensus GDP forecast may stand in three months' time. BlackRock financial conditions indicators (FCI) give a forward view of where the Growth GPS may head and are expressed in GDP terms. The FCI inputs include policy rates, government bond yields, corporate bond spreads, equity market valuations and exchange rates.

Covid cases ticking down everywhere. Impact of restrictions on mobility of and activity has weakened since March/April

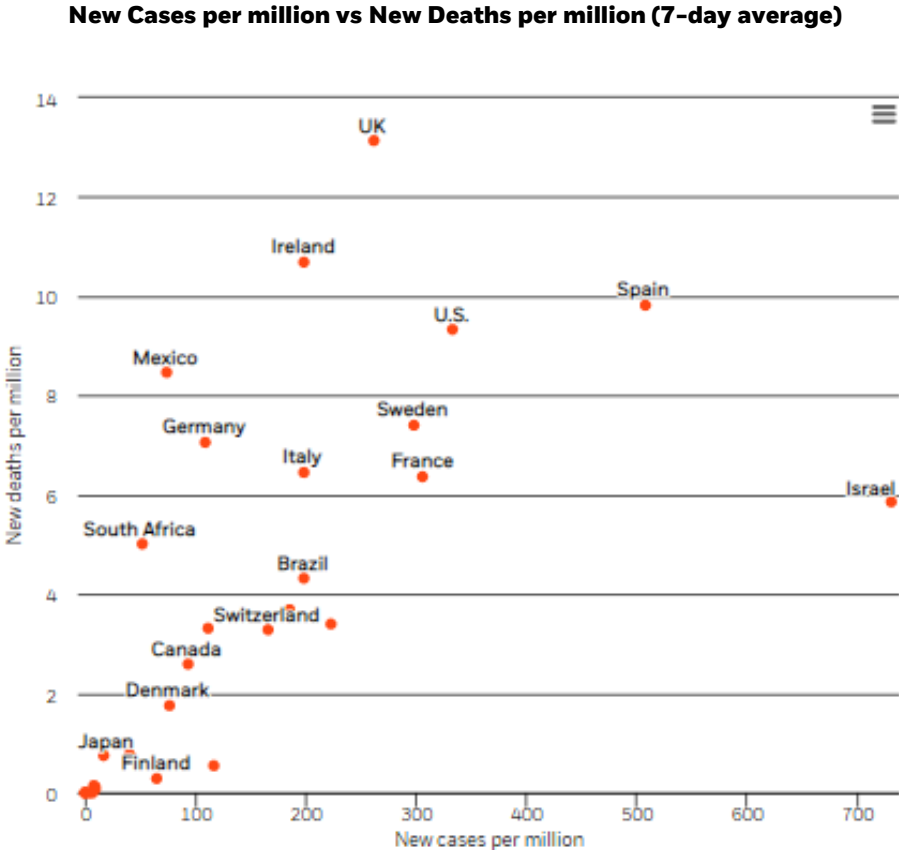
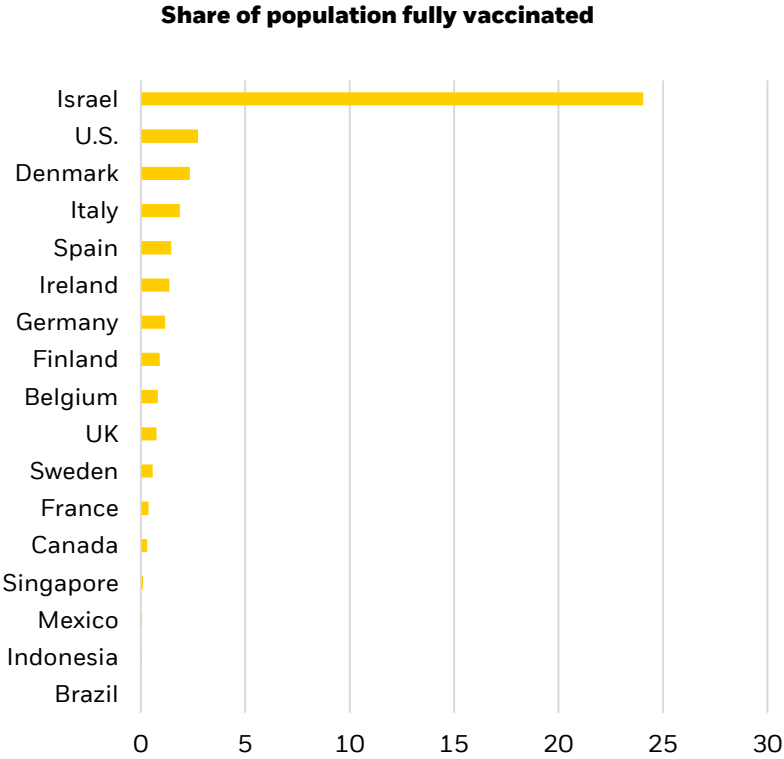
Trajectory of the virus spread and mobility metrics, 2020



Sources: BlackRock Investment Institute, MASS, with SAE and Google. Mobility data as of February 2, 2021. Contagion data (left charts) as of January 10, 2021. Notes: The chart on the left tracks number of new confirmed cases per million people (7-day average).

Israel experience seems to suggest that at 20% of population vaccinated, mortality decreases materially

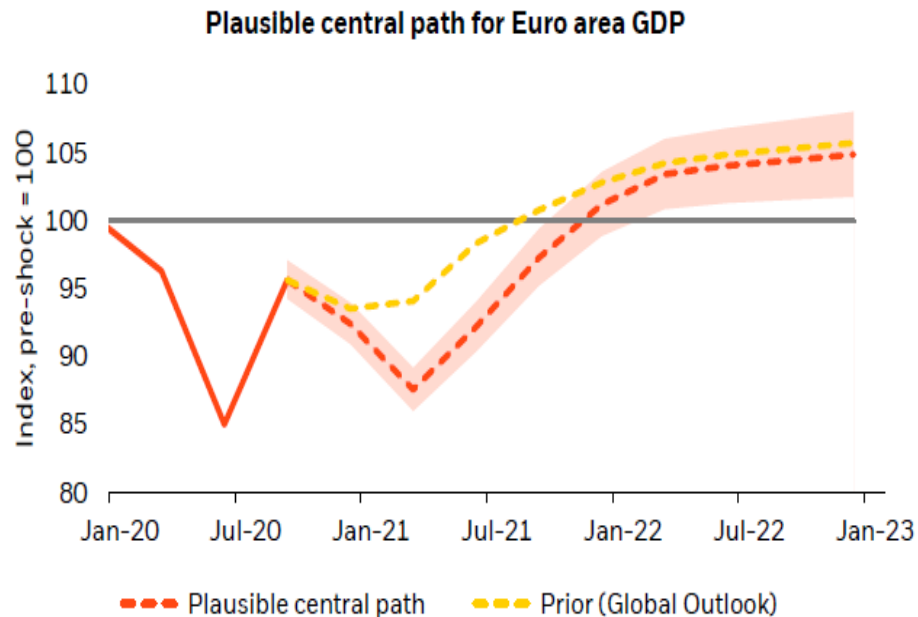
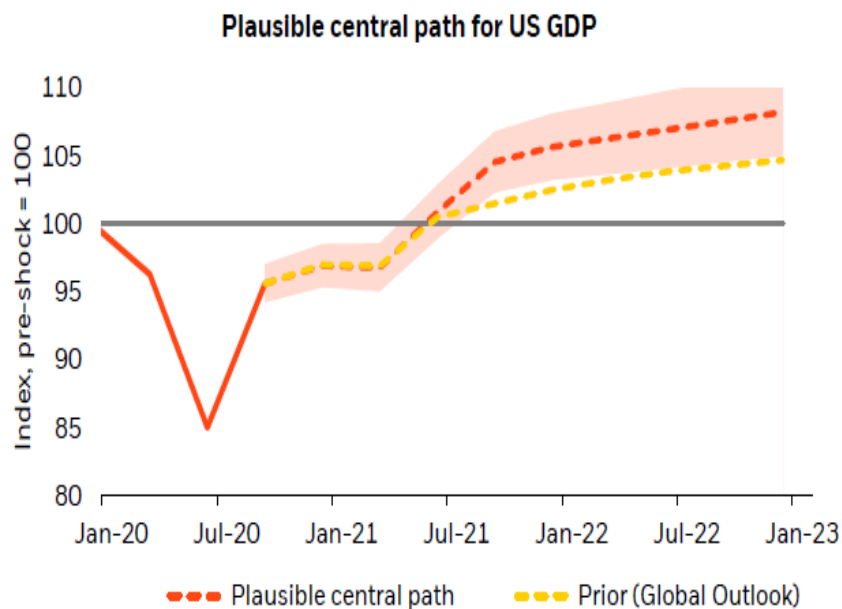
Covid-19 vaccine deployment and country new cases vs. new deaths comparison



Source: BlackRock Investment Institute, Our World in Data, Refinitiv Datastream, Google, European Centre for Disease Prevention
 Notes: This chart shows the share of the total population that have received all doses prescribed by the vaccination protocol. This data is only available for countries which report the breakdown. As of Feb. 09 2021.

Stronger fiscal support in US implies quicker normalization than in the euro area

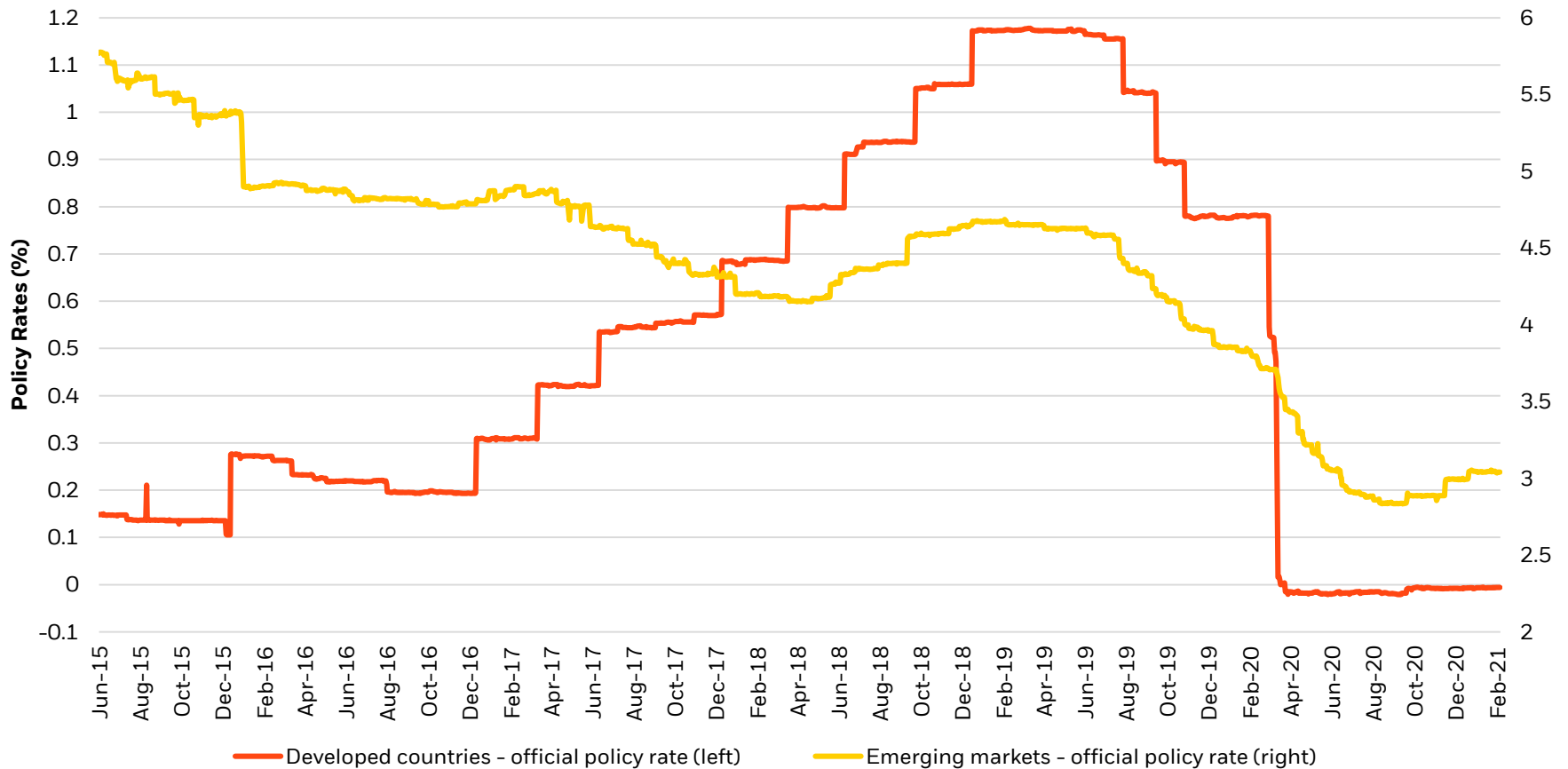
U.S. and euro area GDP and GDP forecasts, 2019–2022



Forward looking estimates may not come to pass. Sources: BlackRock Investment Institute, Refinitiv, with data from Haver Analytics, January 2021. Notes: The red lines show the historical path of real GDP, indexed to 100 in the fourth quarter of 2019 and our forward estimates. The yellow dotted lines show our expectations expectation of real GDP as of early December 2020.

DM central banks policy rates remain stable, while EM conventional easing cycle is likely close to an end

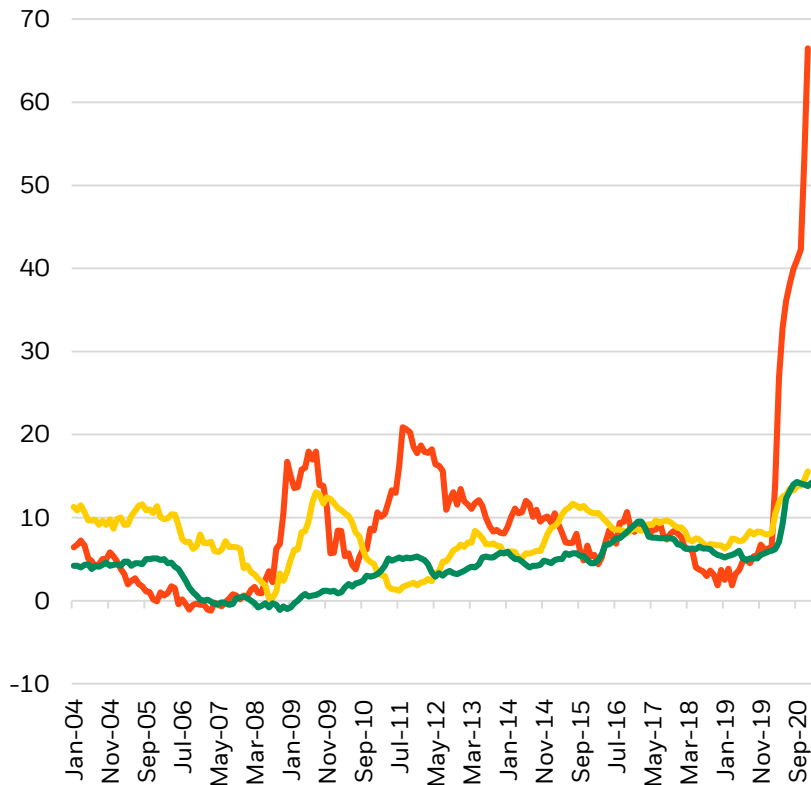
Central bank policy rates, 2018-2020



Sources: BlackRock, data JP Morgan as of 8 February 2021 . Notes: developed countries official policy rate is calculated using ECB Deposit rate for the Euro component..

Money supply still suggests very accommodative monetary stance. Acceleration in China to be monitored.

US, Eurozone and Japan money supply



- Federal Reserve Money Supply M1 YoY % Change
- ECB M1 Money Supply Annual Growth Rate SA
- Japan Money Stock M1 avg amt outstanding YoY%

China Money Supply growth

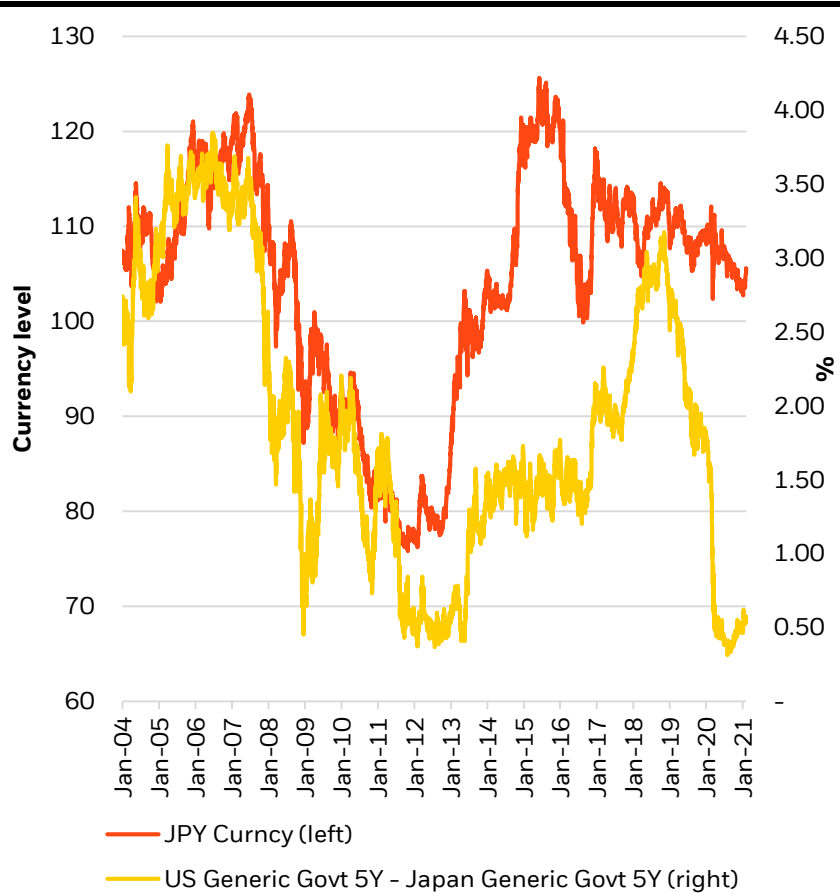


- China Monthly Money Supply M1 YoY

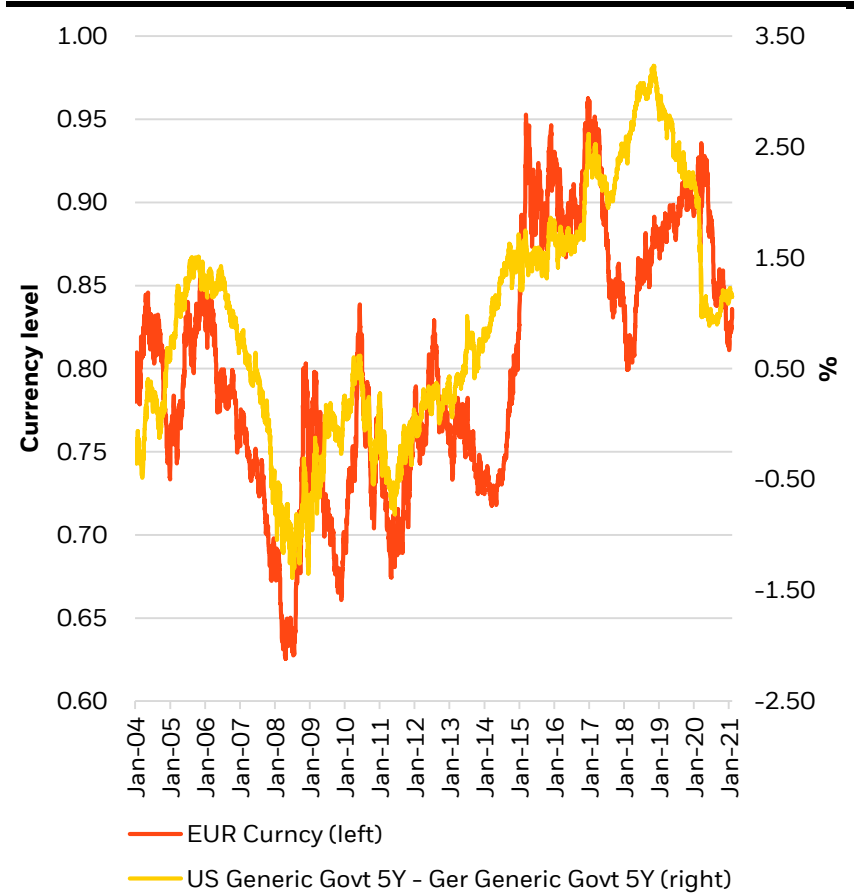
Source: BlackRock, Bloomberg, Federal Reserve, ECB, Bank of Japan and PBoC. Data as of 31 January, 2021. As of previous month-end for Federal Reserve and ECB. For illustrative purpose only.

Rates differentials do not support the USD anymore, but this is more evident vs. JPY than vs. EUR

US vs Japan: 5Y Govt and JPYUSD



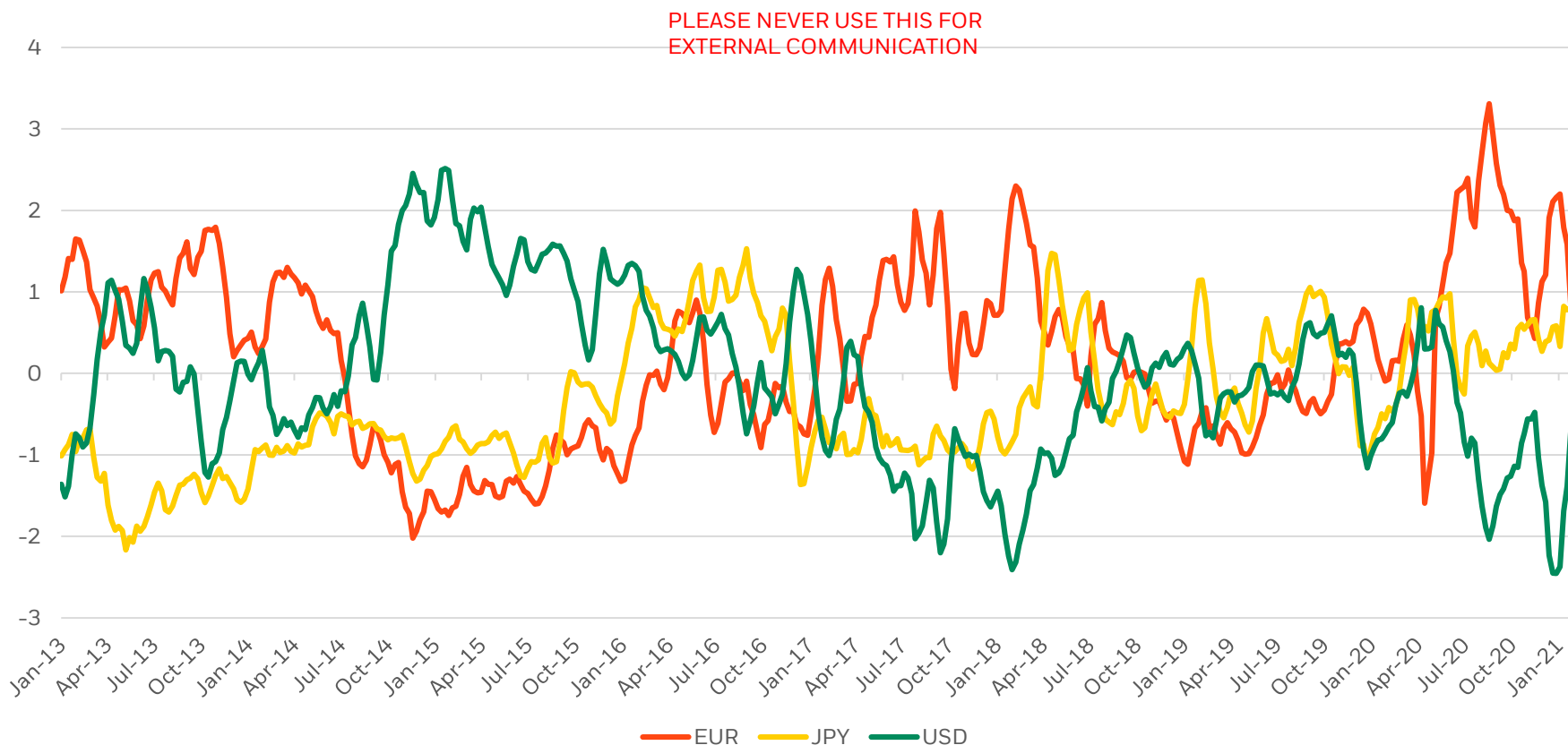
US vs Germany: 5Y Govt and USDEUR



Source: BlackRock, Bloomberg weekly data, as of 5th February, 2021. For illustrative purpose only.

RQA crowdedness indicators show relatively balanced positions among G3 currencies

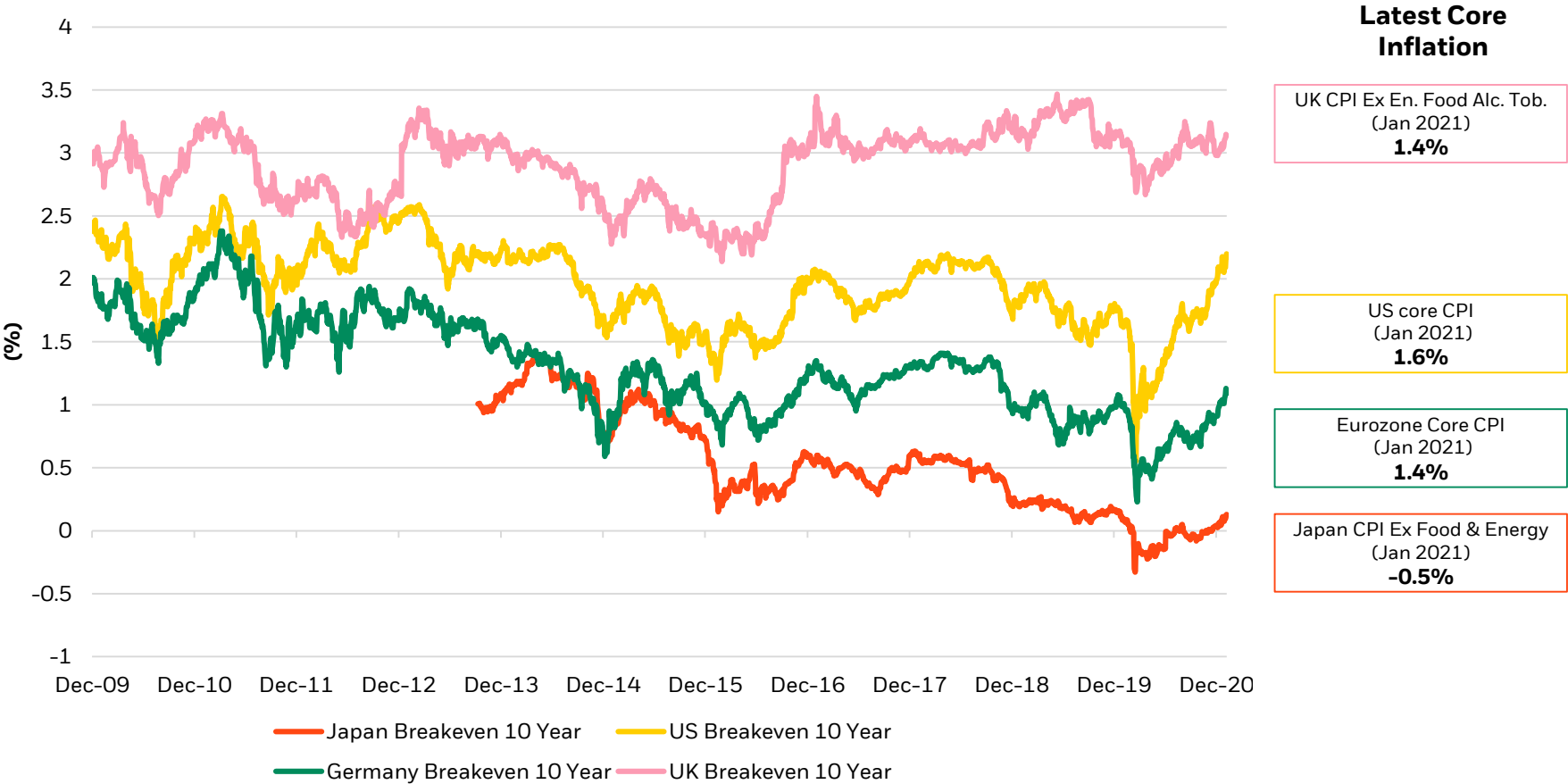
USD, EUR and JPY Indicators



Source: BlackRock, RQA, data as of 2nd February 2021. The indicators aim to identify those segments of capital markets which are becoming increasingly crowded from a macro perspective. Crowdedness is defined as a combination of extreme flows, positioning and momentum. Data from EPFR, CFTC, AEON, State Street, Bloomberg. The data (daily and weekly flows, factor exposures and holding indicators for positioning, 12-month rolling returns for momentum) are smoothed (except for price momentum) and transformed into z-scores subtracting the mean (only for flows) and dividing by standard deviation, with both statistics exponentially smoothed using a 24months half life. The average is then taken as indicator.

We still think there is medium-term upside to breakevens, but at current levels we tactically take some profit

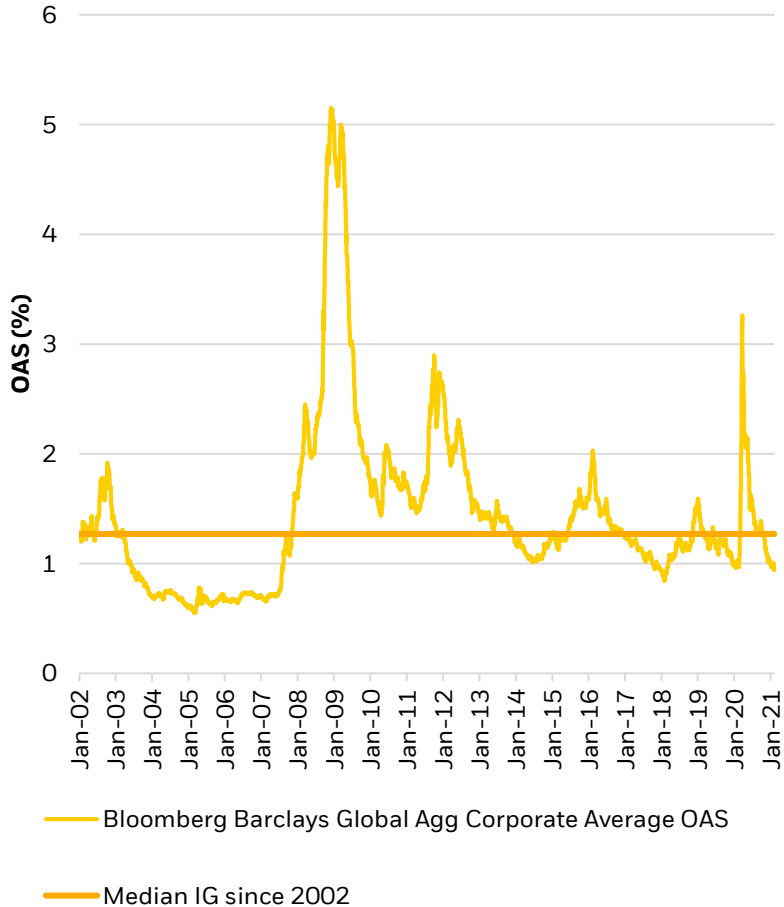
US, UK, Euro and Japan 10-Year Breakeven inflation



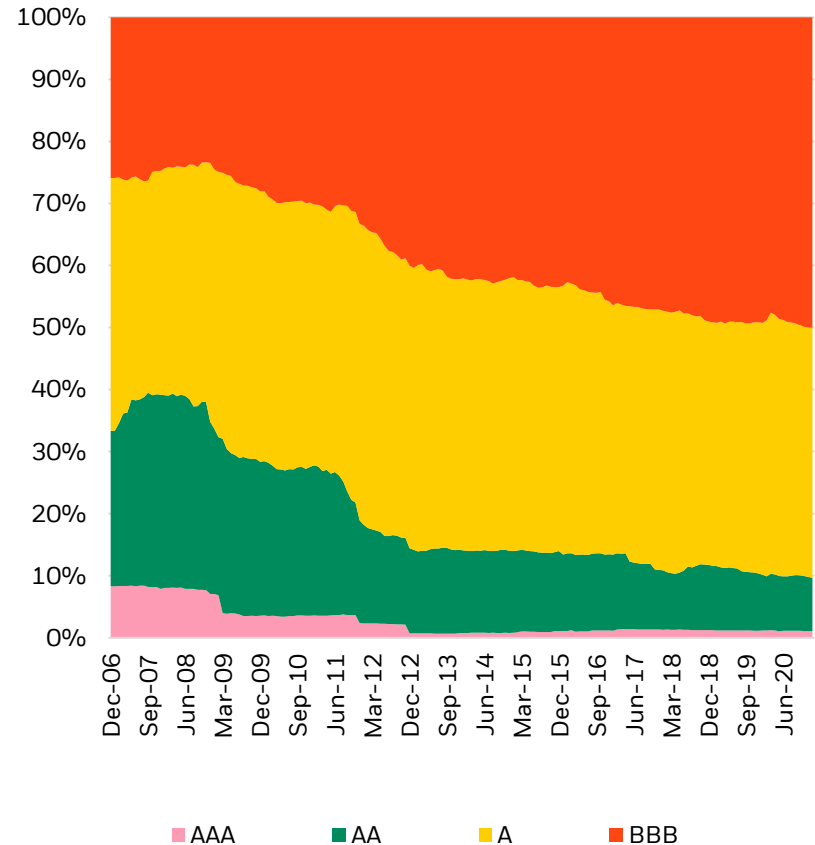
Source: BlackRock, Bloomberg weekly data, as of 5th February, 2021. For illustrative purpose only. The lines represent breakeven 10 year inflation for US, UK, Japan and Eurozone. Right boxes represent latest core inflation data.

IG spread below median and the composition of IG indices has been deteriorating over time

Global Investment Grade Option Adjusted Spread



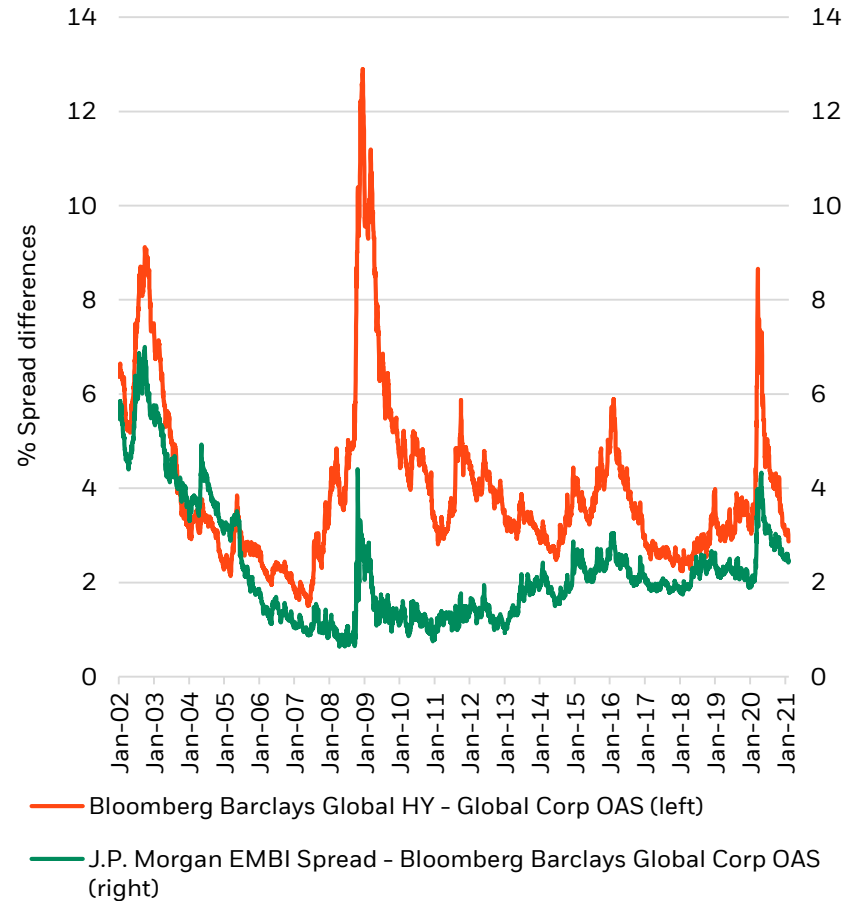
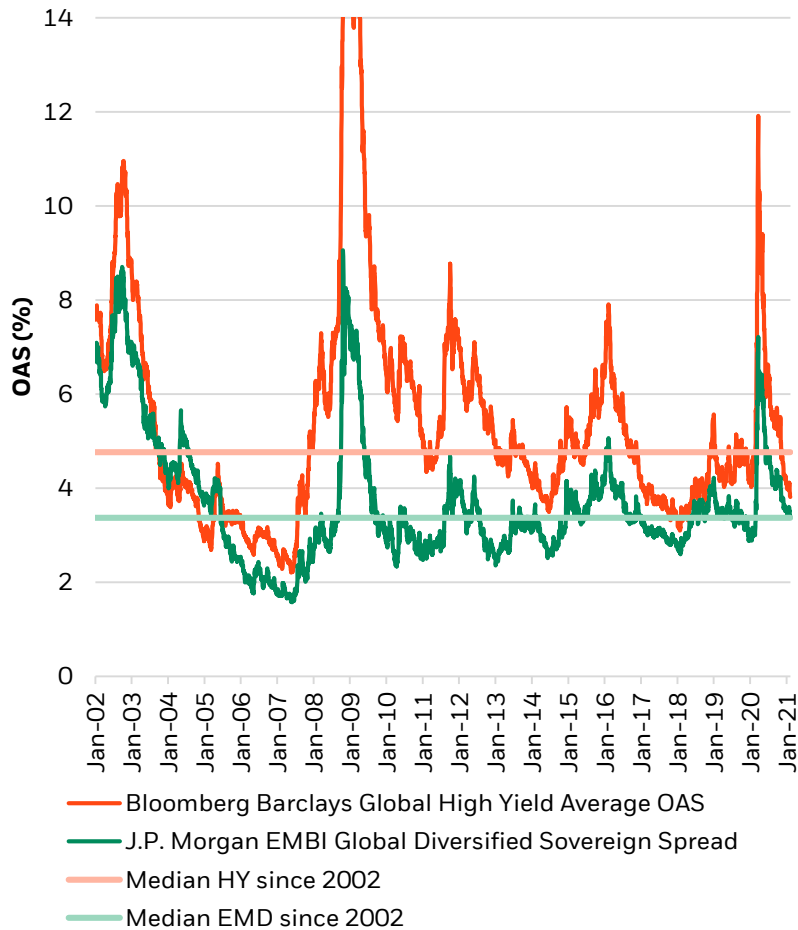
Global Investment Grade by rating bucket



Source: BlackRock, Bloomberg weekly data, as of 8th February, 2021,. For illustrative purpose only. Global IG is represented by Barclays Global Corporate Bond Index. Rating decomposition based on BofA Global Corporate Index.

HY spreads somewhat expensive (EM looks better vs. recent history). Still expect some compression of HY vs. IG

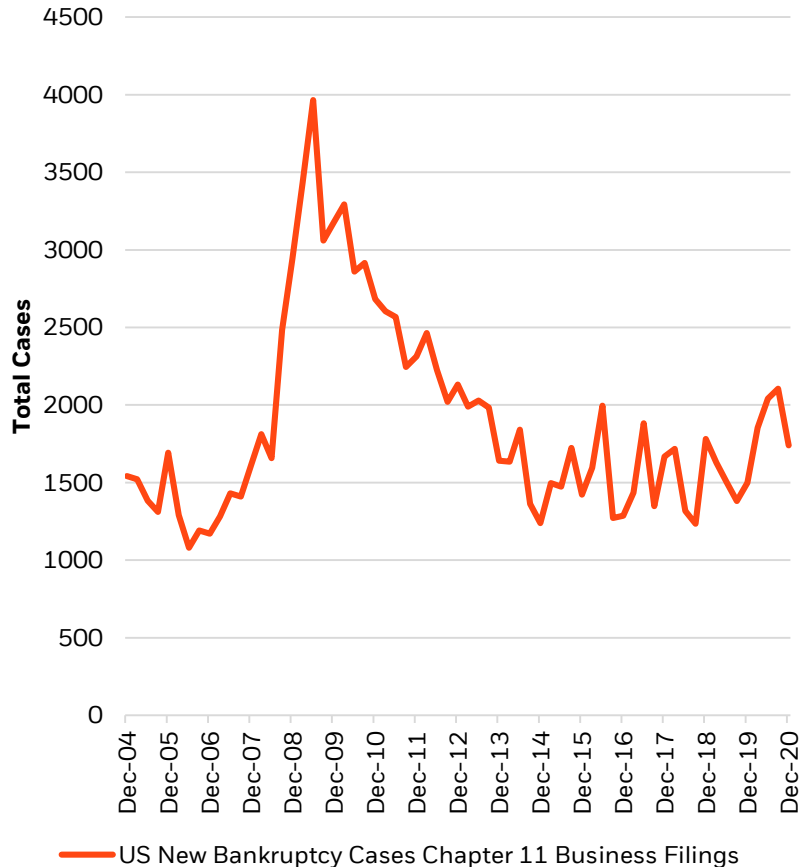
Option Adjusted Spreads (Global High Yield and EMD in Hard Currency) and Relative Valuations



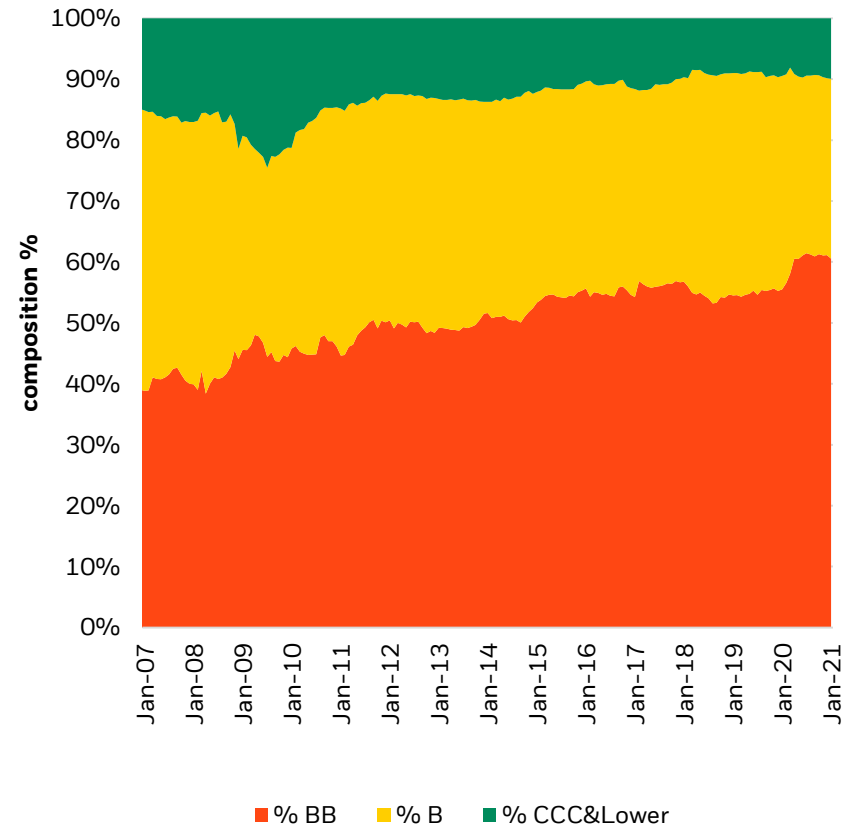
Source: BlackRock, Bloomberg weekly data, as of 8th February, 2021,. For illustrative purpose only. Global HY is represented by Bloomberg Barclays Global High Yield Index. Global IG is represented by Barclays Global Corporate Bond Index. OAS is option adjusted spread. Hard currency EMD is represented by EMBI Global Diversified bond index.

Bankruptcies are ticking down and the composition of High Yield indices has been drifting towards higher quality

US New Bankruptcy Cases Chapter 11 Business Filings



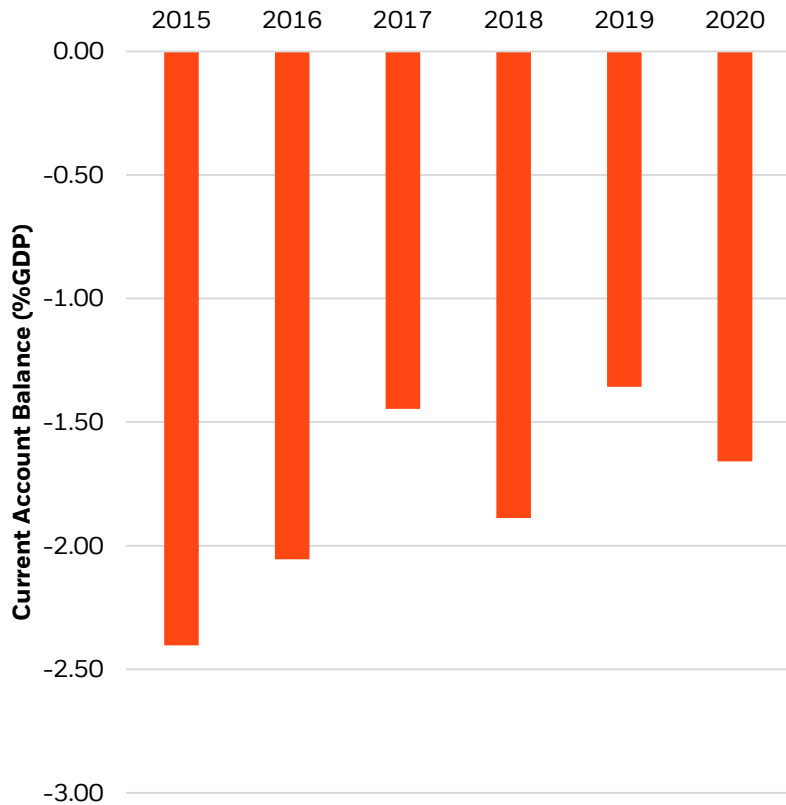
Global High Yield by rating bucket (using market values)



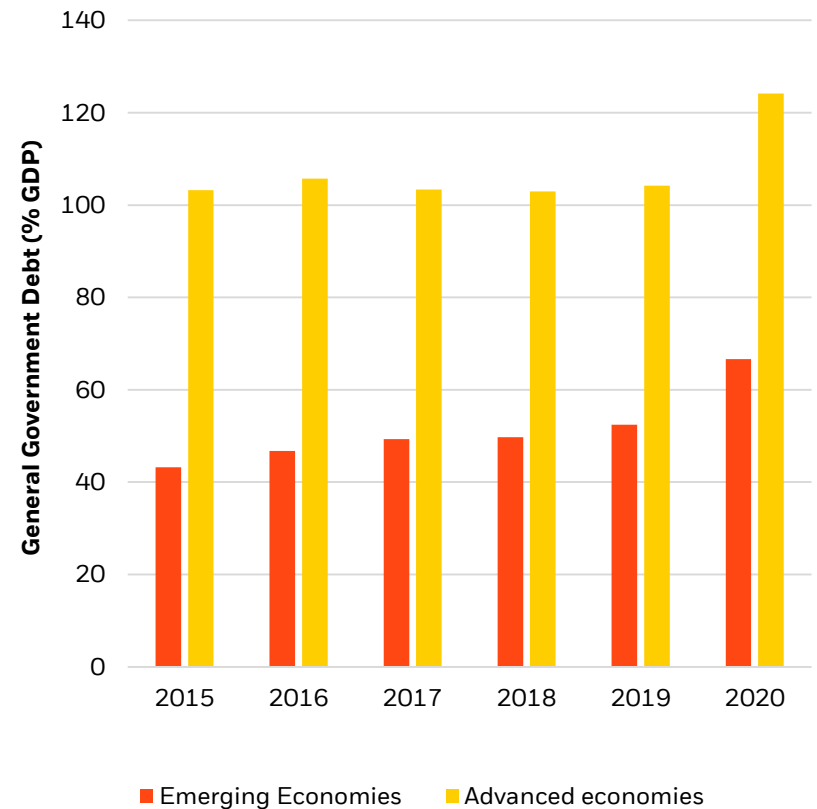
Source: BlackRock, Bloomberg data, as of December 31, 2020 for left chart, as of January 31, 2021 for right chart. For illustrative purpose only. Global High Yield is based on Bofa ML Global High Yield (HW00) Index.

EM Fundamentals are not great, but in aggregate (median) do not look that weak

Median Current Account Balance (% GDP) of top 35 countries in the JPM EMBI Global index



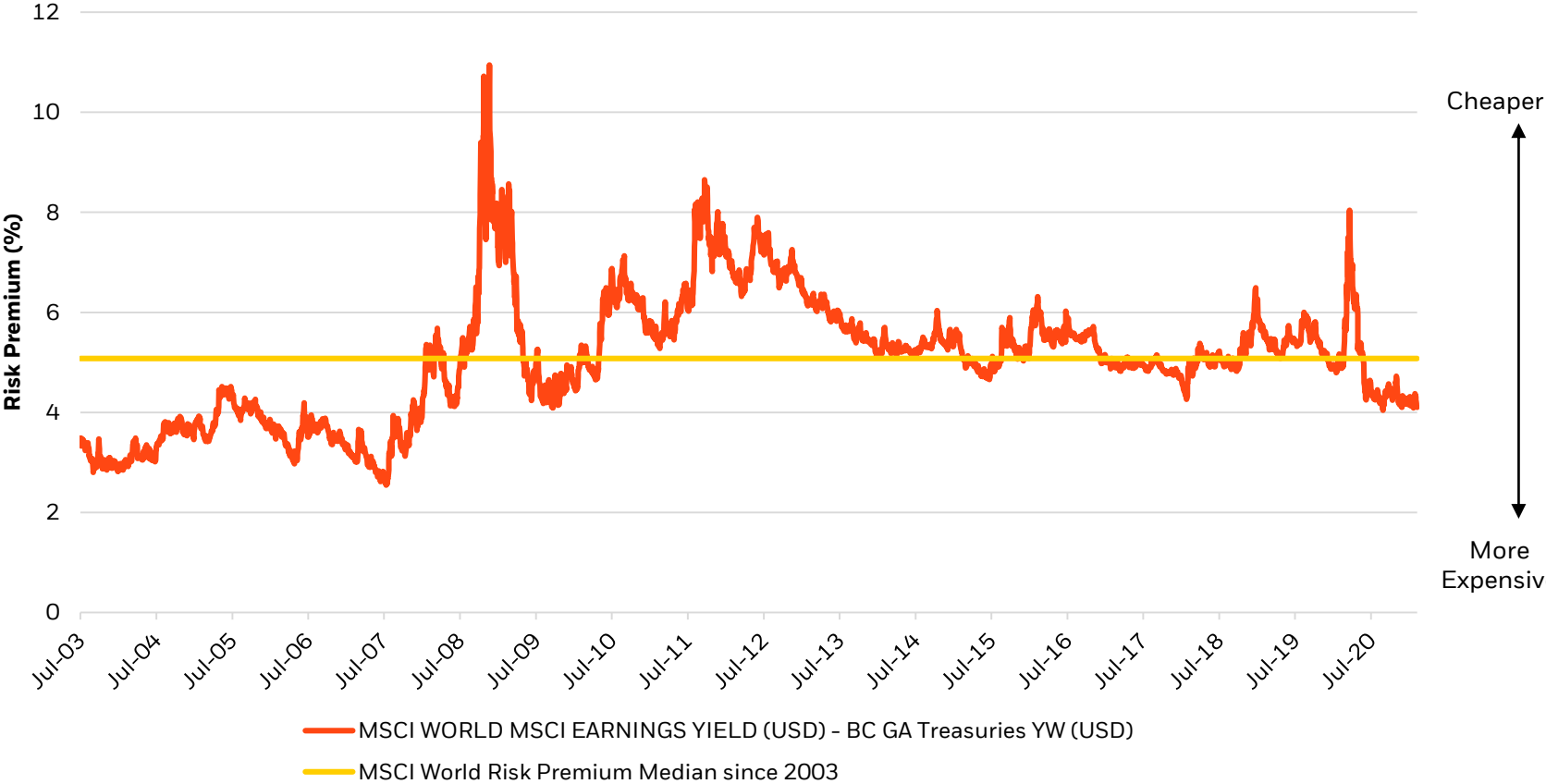
Median Debt/GDP of top 35 countries in the JPM EMBI Global Index and Debt/GDP of Advanced Economies



Sources: BlackRock, data from WEO as of November 2020.

Global equities (relative) valuations appear slightly expensive vs. history

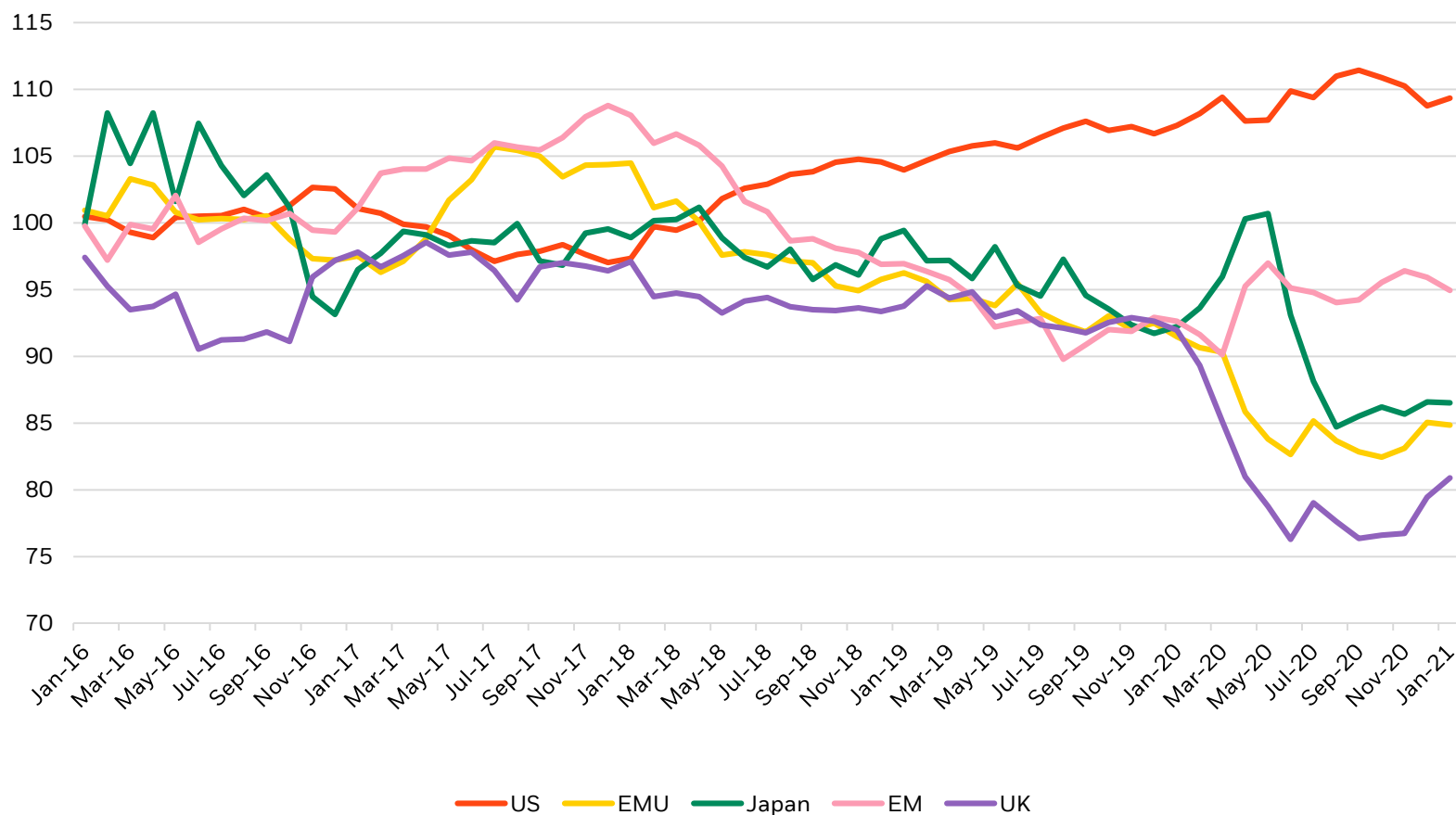
MSCI World Earning Yield – Global Treasuries Yield to Worst (daily)



Source: BlackRock, Bloomberg daily data, as of 8th February, 2021. For illustrative purpose only.

Some pick-up in relative EPS trend in Europe/Japan vs US and, to a lesser extent, EM

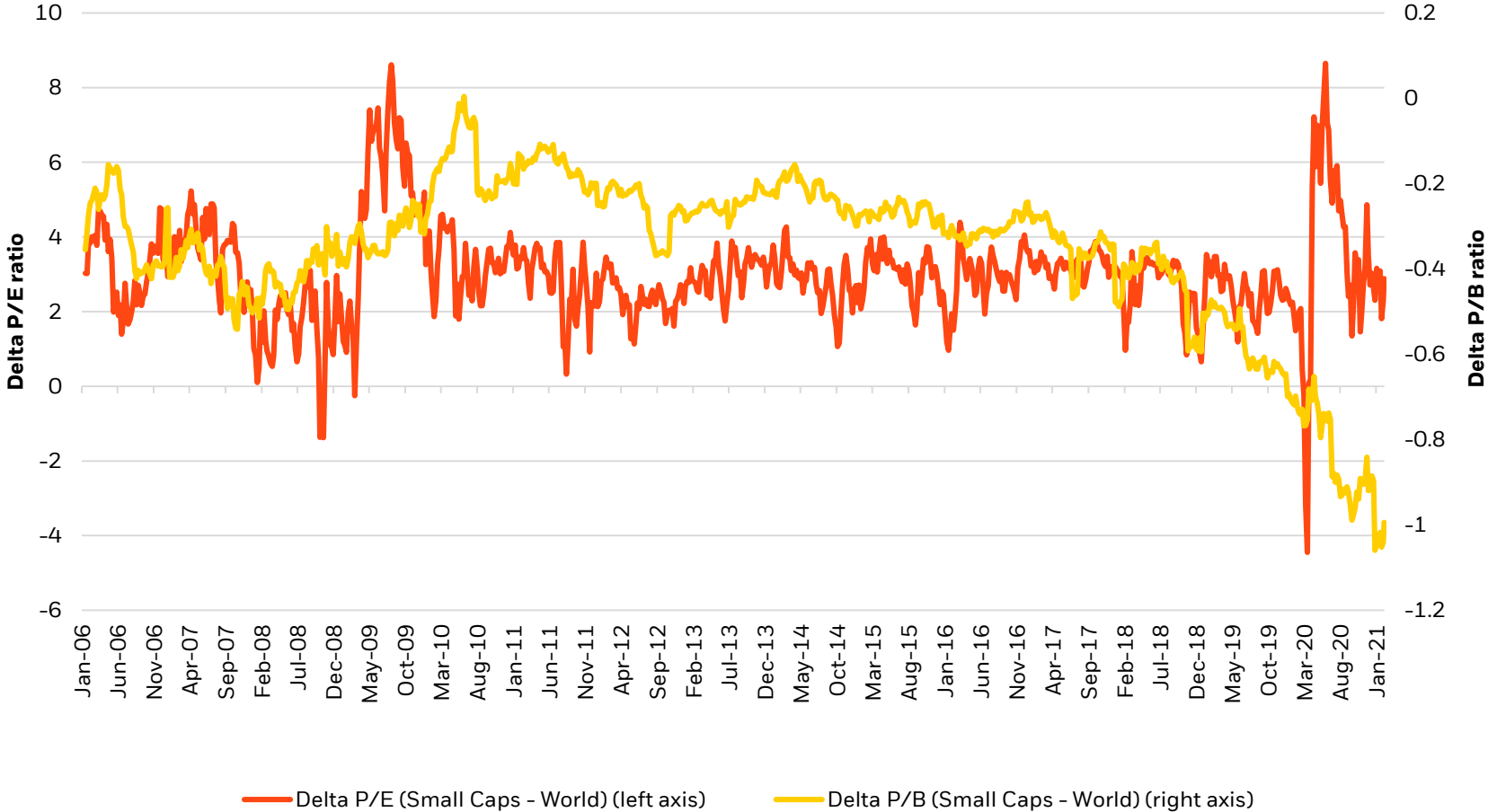
Regional Earnings (12M Forward EPS) vs ACWI (Dec 2015 = 100)



Source: BlackRock, MSCI, as of January 2021. For illustrative purpose only.

Small Caps have rallied a lot in the last few months, but valuations vs. all caps remain supportive

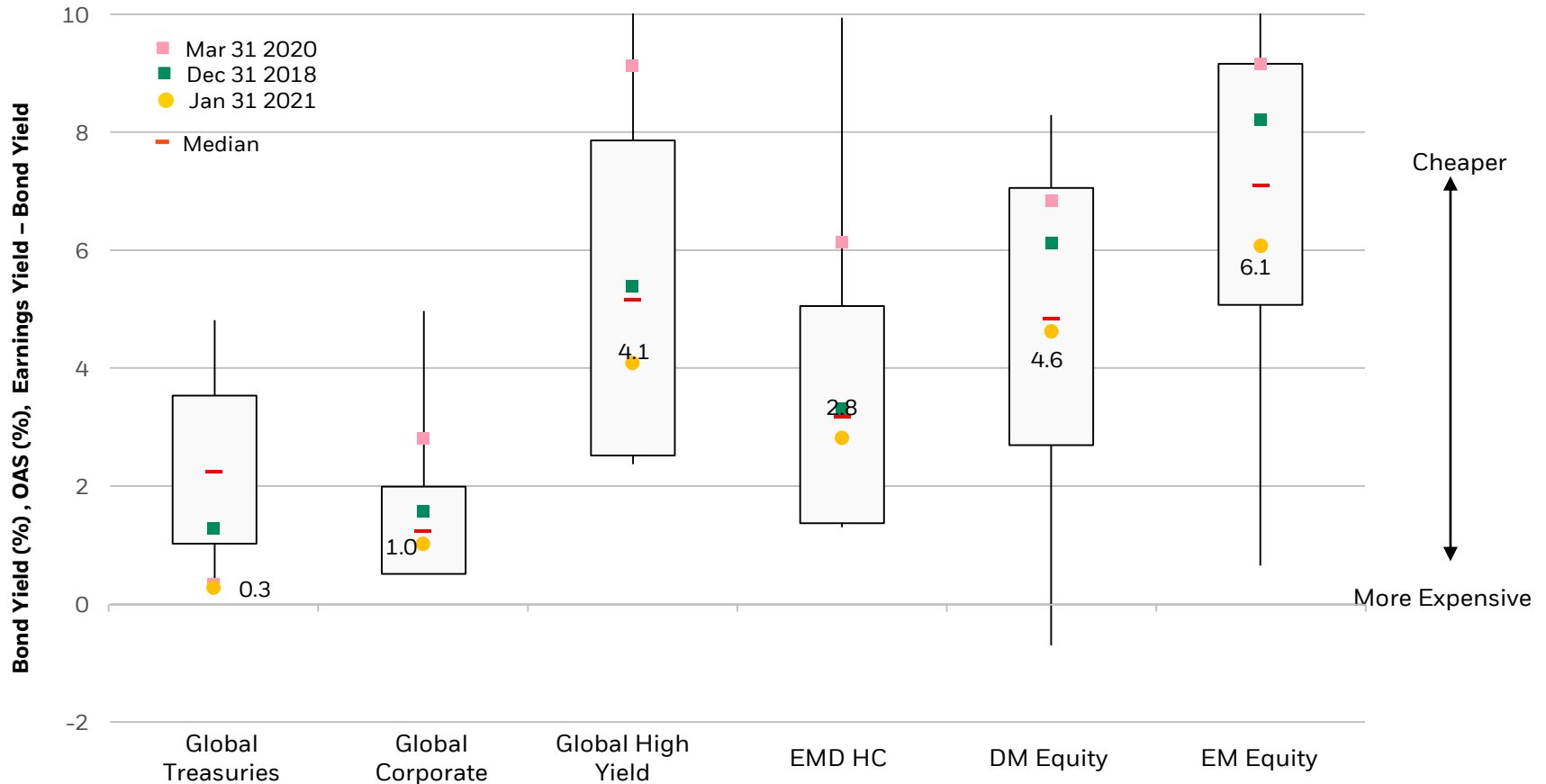
Relative Best P/E ratio and Price to Book ratio (12m forward): delta MSCI Small Caps - MSCI World



Source: BlackRock, MSCI, as of February 8, 2021. For illustrative purpose only.

Long term valuations as of 31/01: all assets now slightly expensive vs. historical medians

Government bonds: YTW. IG , HY Credit and EMD: Option Adjusted Spreads. Equities: Earnings yield – Government Yield



It is not possible to invest directly in an index. Source: BlackRock, Bloomberg, Bofa, as of January 31, 2021. Note: Static valuations use yield to worst, OAS and risk premium (earnings yield – government YTW) for government bonds, credit and equities respectively. Global Treasuries, Global Corporate, Global High Yield and EMD HC refer to Bofa ML indices. Equity MSCI, refers to MSCI indices. Times series reference back to 1998.

Portfolio Update

Executive Summary

Portfolio review: February 2021

Rebalance Date: 19th of February

Commentary

Tactical Rebalance

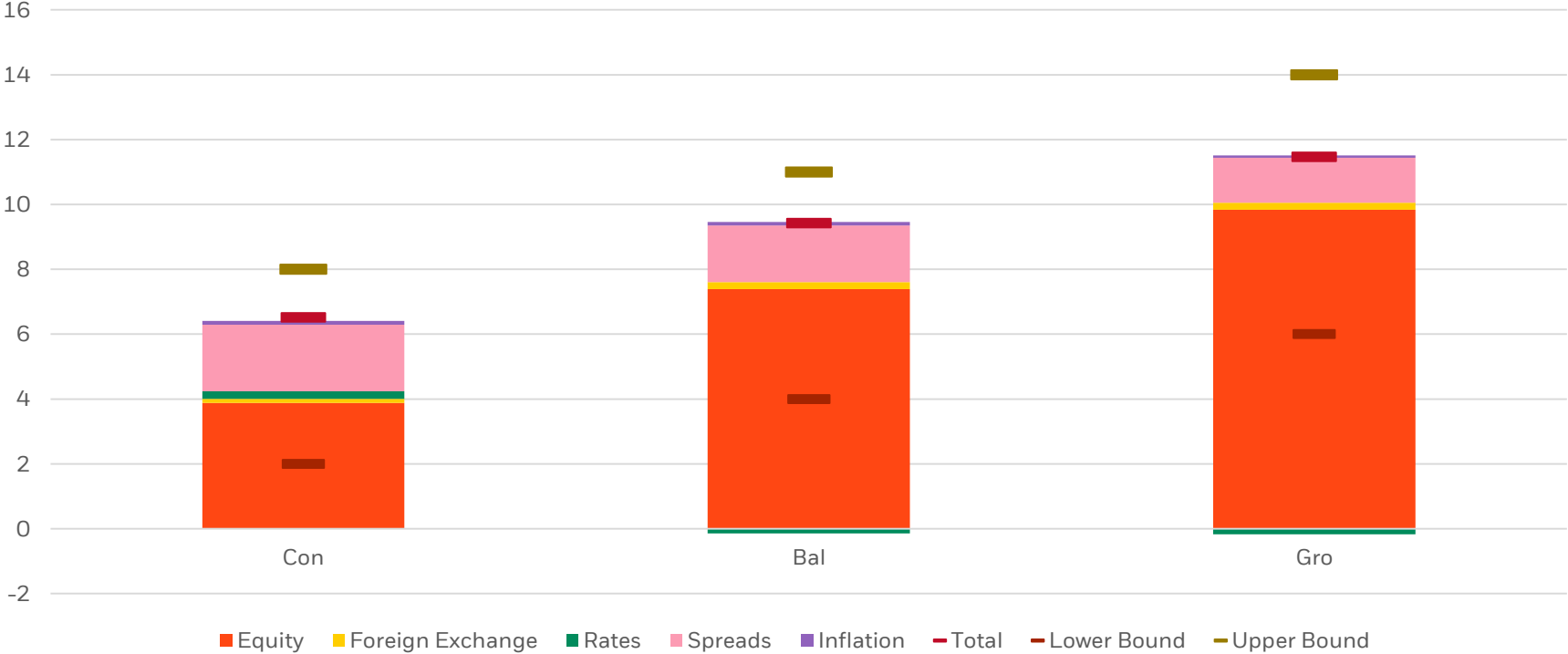
- We remain OW in global equities overall, with a relative preference for EM equities. While most asset classes now appear somewhat expensive, equities are much more geared to an acceleration in economic activity and, as such, are our preferred asset class right now. Strong acceleration in global growth leads us to prefer small caps to large caps in DM, given their higher cyclical exposure and relative valuations that do not appear demanding.
- We remain long credit, but reduce HY OW and bring further UW IG. In HY valuations are not supportive anymore, but the sector, whose average quality has improved in the last decade, remains a beneficiary of accommodative monetary policy, muted bankruptcy cycle and exposure to a continuation (and broadening to traditional sectors) of the economic expansion. IG offers less cyclical exposure and, unlike HY, the quality of the IG indices has deteriorated over time.
- EM debt offers marginally more attractive valuations, but less obvious cyclical upside linked to successful deployment of vaccine. We are small long here as well, also extending to local currency debt.
- We remain UW nominal global government bonds and reduce linkers OW both in US and Europe after recent strong increase in break-evens.
- Overall we are small short duration, mostly outside US and are also OW cash.

Source: BlackRock 16th of February 2021

Asset Class Views

Asset Class	IVC View						
	-3	-2	-1	0	+1	+2	+3
Developed and EM							
Equities	•	•	•	•	•	•	•
Global Credit	•	•	•	•	•	•	•
Developed Sovereign Bonds	•	•	•	•	•	•	•
USD Cash	•	•	•	•	•	•	•
Equities							
US	•	•	•	•	•	•	•
Europe ex UK	•	•	•	•	•	•	•
UK	•	•	•	•	•	•	•
Japan	•	•	•	•	•	•	•
Pacific ex Japan	•	•	•	•	•	•	•
EM	•	•	•	•	•	•	•
Credit							
Global Corporate IG	•	•	•	•	•	•	•
Credit	•	•	•	•	•	•	•
Global Corporate HY Credit	•	•	•	•	•	•	•
EM Debt Hard Currency	•	•	•	•	•	•	•
Sovereign Bonds							
US Treasuries – All Maturities	•	•	•	•	•	•	•
Euro Government Bonds – All Maturities	•	•	•	•	•	•	•
UK Gilts	•	•	•	•	•	•	•
Japanese Government Bonds	•	•	•	•	•	•	•
Inflation-linked Bonds	•	•	•	•	•	•	•
FX							
EUR (vs. USD; positive score implies bullish EUR)	•	•	•	•	•	•	•
GBP (vs. USD; positive score implies bullish GBP)	•	•	•	•	•	•	•
JPY (vs. USD; positive score implies bullish JPY)	•	•	•	•	•	•	•

Risk Decomposition Comparison



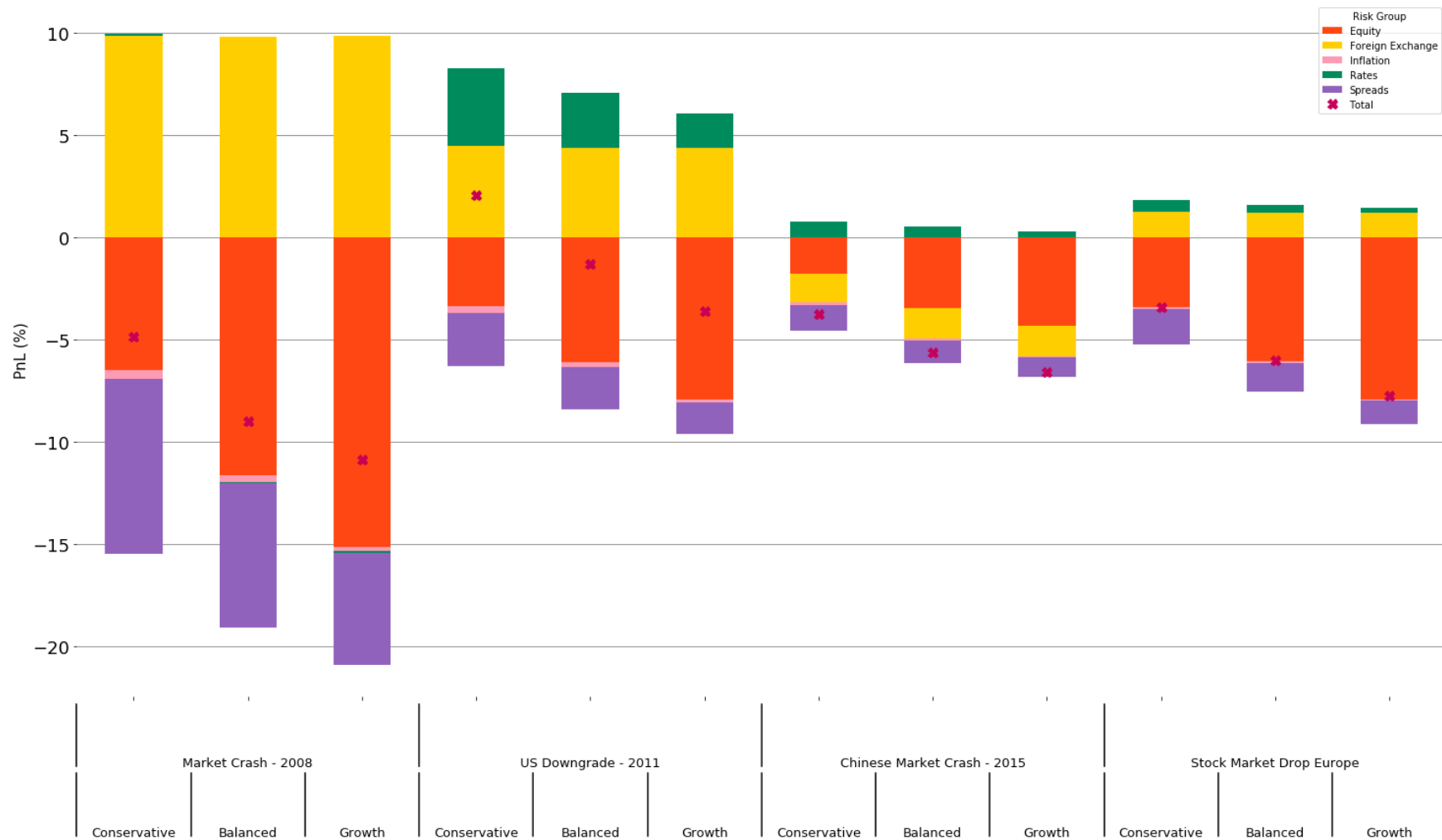
Standard deviation - A statistical estimate measuring how dispersed returns are around an average. The estimate uses the risk factor exposures and volatilities of the underlying funds, based on BlackRock’s risk models and takes into account the correlations of the factors across the portfolio. It isn’t meant to be predict model volatility, actual volatility of any portfolio based on the models shown will vary and may be higher.

For further information on the Risk Contribution and Risk Exposures, please see the end of this document. This information should not be relied upon as investment advice, research, or a recommendation by BlackRock regarding (i) the iShares Funds, (ii) the use or suitability of the model portfolios or (iii) any security in particular. Only an investor and their financial advisor know enough about their circumstances to make an investment decision.

Source: BlackRock 16th of February 2021

Stress Tests

Based on the Whole Portfolio



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Source: BlackRock 16th of February 2021

**Portfolio is the aggregate position of strategic allocations and tilts

Glossary of Terms – Risk Exposures

Term	Description
Equity	Measures the contribution to risk from holding equities in the portfolio.
FX	Measures the contribution to risk from unhedged non GBP currency exposure
Specific	Idiosyncratic risk; that is, risk due to the unique circumstances of a particular security and not the market as a whole.
Alternatives	Measures the contribution to risk from holding alternative asset classes such as property, hedge funds or illiquid assets.
Interest Rates	The Scheme's liabilities and fixed income assets are exposed to interest rate risk which means that the values of these assets will change when there is a change to the level of interest rates. This illustrates the contribution to risk from the Scheme's liabilities which aren't offset by fixed income (matching) assets.
Spreads	Measures the contribution to risk from holding corporate bonds and swaps in the portfolio.
US Interest Rates	Measures contribution to risk from exposure to US interest rates.
Inflation	The Scheme's liabilities and fixed income assets are exposed to inflation risk which means that the values of these assets will change when there is a change to inflation expectations. This illustrates the contribution to risk from the Scheme's liabilities which aren't offset by inflation linked (matching) assets.
Others	Measures risks that are not attributed to any of the factors listed above. It includes but is not limited to risks attributed to convexity, and cash & cash equivalents.

Appendix: Scenario descriptions

BlackRock maintains hypothetical stress test scenarios. These forward looking scenarios allow BlackRock to stress test your portfolio to build a broader understanding of the market risks to your asset allocation strategy.

Scenario analysis can be used to help expose particular risk concentrations in a wide range of market conditions, which can influence portfolio design and facilitate a faster response to unfavourable changes in market conditions.

The scenarios are designed to shock a specific set of asset classes / economic variables, and rely on historical implied correlations to determine the shocks for all other factors/asset classes. For the below set of Scenario Stress Tests 7 years of rolling data is used. The Global Financial Crisis has been deliberately excluded due to structural changes in leverage and regulations.

BlackRock will review these scenarios on a periodic basis and will update this stress test analysis as market conditions change.

Term	Description
Market Crash - 2008	Sep 12 - Nov 03, 2008: Credit & liquidity crisis and equity market crash set off by Lehman Brothers bankruptcy. Significant credit spreads widening caused by massive deleveraging. Shocks for DxS Factors are percentages of spread.
US Downgrade - 2011	July 21 - Sept 20, 2011: The period starts with 50% chance US downgrade indication from S&P Standards and ends with Operational Twist announcement by Fed. Stock market incurred losses while bonds markets saw gains due to flight to safety. Shocks for DxS Factors are percentages of spread.
Chinese Market Crash - 2015	June 12 - Aug 26, 2015: Chinese stock market crash beginning with the popping of the stock market bubble on 12 June 2015
Stock Market Drop Europe	1% probability Downward movement in Europe Equity Market

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- Capital at risk. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. 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.
- Past performance is not a reliable indicator of future results and should not be the sole factor of consideration when selecting a product or strategy.
- A MMF is not a guaranteed investment vehicle. An investment in MMFs is different from an investment in deposits; the principal invested in an MMF is capable of fluctuation and the risk of loss of the principal is to be borne by the investor. Further information about the funds, including the type of MMF that the fund is classified as under the Money Market Funds Regulation, the methods used by the MMF to value the assets of the MMF and calculate the NAV, are available at blackrock.com/cash. The credit ratings were solicited and financed by BlackRock.

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