

# BLACKROCK ADVANTAGE INTERNATIONAL EQUITY FUND

# BLACKROCK®

FUND UPDATE

31 October 2021

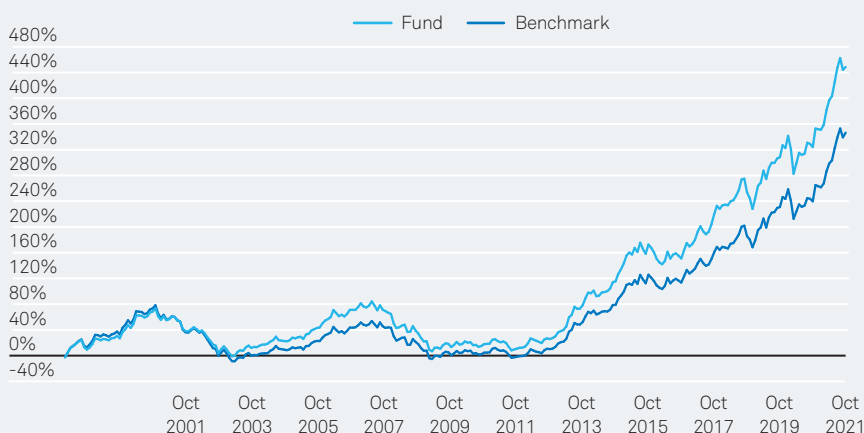
## Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
BlackRock Scientific International Alpha Tilts Fund <sup>1</sup> (Gross of Fees)	0.83	0.14	21.36	29.27	15.69	16.87	8.95
MSCI World ex Australia Index (unhedged in AUD)	1.65	1.61	22.89	31.36	16.05	15.88	8.48
Outperformance (Gross of Fees)	-0.82	-1.47	-1.53	-2.09	-0.35	0.99	0.47
BlackRock Advantage International Equity Fund <sup>2</sup> (Net of Fees)	0.79	0.02	20.89	28.67	15.08	16.09	6.53
MSCI World ex Australia Index (unhedged in AUD)	1.65	1.61	22.89	31.36	16.05	15.88	6.48
Outperformance (Net of Fees)	-0.86	-1.59	-2.00	-2.69	-0.97	0.21	0.05
BlackRock Scientific Hedged International Alpha Tilts Fund <sup>3</sup> (Gross of Fees)	4.60	2.71	19.53	37.46	15.81	15.61	10.18
MSCI World ex Australia Index (hedged in AUD)	5.43	4.19	21.05	39.70	16.34	14.77	9.97
Outperformance (Gross of Fees)	-0.83	-1.48	-1.52	-2.24	-0.53	0.85	0.21
BlackRock Advantage Hedged International Equity Fund <sup>4</sup> (Net of Fees)	4.55	2.58	19.03	36.79	15.16	14.79	10.69
MSCI World ex Australia Index (hedged in AUD)	5.43	4.19	21.05	39.70	16.34	14.77	11.23
Outperformance (Net of Fees)	-0.87	-1.61	-2.02	-2.91	-1.19	0.03	-0.54

<sup>1</sup> Fund inception: 15/04/2004. <sup>2</sup> Fund inception: 31/12/1997. <sup>3</sup> Fund inception: 15/04/2004. <sup>4</sup> Fund inception: 04/04/2003.

Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised. Performance is calculated in Australian dollars and assumes reinvestment of distributions. Gross performance is calculated gross of ongoing fees and expenses. Net performance is calculated on exit-to-exit price basis, e.g. net of ongoing fees and expenses. Gross returns are provided for products offered to wholesale clients only who may be subject to differential fees. Please refer to the Fund's product disclosure statement for more information.

## Fund Performance (Gross Unhedged) to 31 October 2021



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- Market Insights & Commentary
- Fund Performance
- Unit Prices

## Performance Summary

### Market Review

The MSCI World Ex Australia Index gained 1.65% in unhedged AUD terms and 5.43% in fully hedged to AUD terms in October.

October was a mixed month for financial markets. Risk sentiment stayed positive as equities rebounded from their losses in September. Commodities had another strong month with energy prices continuing to rally, stoking inflationary pressures globally. Developed market government bond yields sold off over the month on the back of continued expectations around monetary stimulus being withdrawn. Some of the most significant rate moves occurred in Australia. 2-year Australian government bond yields spiked from close to zero to 0.6%, while 10-year yields rose from 1.5% to over 2.0% in October after the Reserve Bank of Australia (RBA) abandoned its yield curve control measures and did not intervene in defending its 0.1% target for the key April 2024 bond. High yield markets recorded mildly negative returns, while investment grade markets were roughly flat over the month.

Global equities gained meaningfully in local currency terms but were less positive in unhedged AUD terms (i.e. after taking currency moves into account). Regionally, developed market equities continued to outperform their emerging market counterparts, led by the US. Corporate earnings results were encouraging, with several large US and European companies reporting strong profits and announcing high dividend pay-outs. Japanese equities declined slightly in October despite September's rally following a change in Japan's political environment. Emerging market equities recorded somewhat positive performance over the month (up 1.5% in local currency terms, but down in unhedged AUD terms).

In currencies, the Australian dollar was amongst the strongest performers over the month, while the US dollar and the euro both depreciated.

US equities represented through the S&P 500 Index gained over 6% in October (in local currency terms). Most sectors recorded positive performance, with Consumer Discretionary, Energy and Technology the top sectors in the US, helping drive the S&P 500 to a new peak. Emphasis on upbeat US earnings, robust fiscal expansion and an improved COVID environment with vaccinations and boosters created a favourable backdrop.

The Federal Open Market Committee (FOMC) meeting minutes signalled a range of views in tapering discussions. Despite previously categorising this extended phase of high inflation as 'transitory', an emergence of sticky broad-based inflation led to Federal Reserve Chair Jerome Powell announcing the taper of the central bank's \$120 billion asset purchase program in November (as widely expected).

From an economic data front, data prints for September's retail sales topped expectations and the flash PMI's pointed to growing momentum. The recovery in the labour market sputtered as the September nonfarm payroll report surprised to the downside with the headline number printing well below the consensus. The weak data highlighted the difficulties filling vacant positions primarily attributable to labour shortages and the uncertainties around the Delta variant. September's inflation (CPI) report was strong, despite the weaker monthly growth seen during the summer, introducing a "stagflation" worry in markets – high inflation but potentially weak economic growth.

US GDP growth of 2.0% y/y for the third quarter was somewhat disappointing, as a combination of negative effects from Hurricane Ida and persistent supply-side constraints weighed on economic

growth. While the US economy has been growing strongly for much of this year, momentum continues to be dampened by supply side bottlenecks and shortages of semiconductor chips. The rate of GDP growth has also decelerated despite consumer confidence remaining high. Prime Minister Biden's legislative push to temporarily raise the government's borrowing limit provided some relief to a stressed credit market.

European equity markets represented through the Euro Stoxx 600 Index gained over 4.7% in October (in local currency terms). Emergence of strong Q3 earnings highlighted growing consumer demand, with Utilities, IT and Consumer Discretionary the top performing sectors.

Within the European block, third quarter seasonally adjusted GDP for the Eurozone showed growth of 2.2% on a quarter-on-quarter basis, a slight increase from Q2. However, significant price increases, particularly across commodities and input components, created major supply side challenges. The European Central Bank (ECB) reinforced the narrative that the upcoming period of high inflation will be largely transitory. Employment data generally improved across the Euro Area but the composite PMI hit a six-month low, as businesses struggle with supply bottlenecks and rising raw materials costs.

The UK equity market as measured by the FTSE Index gained north of 2%. Strong Q3 earnings, particularly within the financial sector was an indication of attractive valuations and dividend yields. The previously observed spike in new COVID cases reached a peak in late October, however, this is yet to translate into concerns regarding hospitalisation or deaths given the highly vaccinated population. The relaxation of COVID related restrictions in July has continued to boost business and consumer spending, with the UK's Composite PMI growing in October and remaining firmly in expansionary territory. Labour shortages and rising supply costs continue to place stress on wages with the Bank of England indicating a possible rate rise in early 2022 to help ease mounting short-term inflationary pressures.

Asian equities recorded mixed performance in October. Chinese equities gained, following several months of substantial underperformance. The Chinese property sector also slightly rebounded after large property developers made interest payments that were previously defaulted. China continued to follow a zero-tolerance/low-tolerance policy for new COVID-19 cases and has reimposed lockdown restrictions after the emergence of new Covid cases in October. Despite revised expectations for a slowdown in China's 2021 economic growth and global supply chain disruptions, a 27.1% rise in China's trade surplus provided welcome relief to the economy which has been negatively impacted by weakened consumer spending and electricity shortages. Real GDP growth decelerated in Q3 as inflation, particularly a large surge in food and vegetable prices, spiked as a result of heaving flooding and rising electricity prices. The slowdown in economic growth was driven by a cooling housing market, with a further deceleration in property investment and a deeper contraction in home sales.

Japanese equities reversed their gains from September and declined 1.4% in October. The conclusion of the general election at October end resulted in Prime Minister Kishida's Liberal Democratic Party (LDP) losing 15 seats yet maintaining a comfortable majority and legislative control. Prime Minister Kishida is expected to unveil a large fiscal stimulus package to further support consumer sentiment amidst Japan's transition from a state of emergency. Despite a downturn in the local stock market, Japan's Services PMI moved into expansionary territory (a score above 50) for the first time in two years with strong optimism for improved business conditions and consumer confidence. The Bank of Japan (BoJ) held policy rates unchanged during the October meeting as widely expected.

## Strategy Commentary

The international stock selection strategy had a positive month absolute terms; however, it underperformed its benchmark. All insights detracted during the month, especially Value, Momentum and Sentiment. Geographically, Value detracted in the US and Europe. Looking at sectors, HealthCare was the main source of underperformance due to overweights pharmaceuticals in Japan and the US. Consumer Discretionary also detracted through poor positioning within North American specialty retailers. Industrials also detracted through overweights within the sector, notably air freight in Europe and machinery in the US and Europe. Information Technology added thanks to overweights software and underweights IT services in the US.

Positive contributors to performance included an overweight position in Intuit and an underweight position in Paypal Holdings.

**Intuit** – The American financial software company Intuit continued to expand its offering with a recent launch targeting the fast-growing small business segment. The share price has been strong with generally positive sentiment heading into the results next month. The overweight position was a result of favourable views across Sentiment and Quality insights.

**Paypal Holdings** – American payment company Paypal saw its share price fall after acquisition rumours of Pinterest, which raised concerns amongst investors. The underweight position was driven by generally negative views across most insights, especially Quality and Cross Border Thematics.

Detractors from performance included overweight positions in Takeda Pharmaceutical and Fidelity National Info Services.

**Takeda Pharmaceutical** – Japanese pharmaceutical firm Takeda Pharmaceutical saw its share price drop by over 10% after announcing that it will stop the phase 2 trial of a key drug due to safety concerns. The overweight position was a result of positive views across most insights, especially Sentiment, Value, Quality and Momentum insights.

**Fidelity National Info Services** – American software company Fidelity National Info Services underperformed during the month in line with its industry peers and despite no stock specific news. The overweight position was driven by positive Momentum and Sentiment insights.

### Top Active Holdings

Overweight	Underweight
INTUIT INC	HOME DEPOT INC
SAP	NESTLE SA
JOHNSON & JOHNSON	META PLATFORMS INC CLASS A
BRISTOL MYERS SQUIBB	WALT DISNEY
DTE ENERGY	EXXON MOBIL CORP

### Top Holdings

Holding	Weight %
APPLE INC	4.95
MICROSOFT CORP	3.76
AMAZON COM INC	2.25
ALPHABET INC CLASS A	1.90
ALPHABET INC CLASS C	1.88
JOHNSON & JOHNSON	1.52
TESLA INC	1.46
VISA INC CLASS A	1.32
NVIDIA CORP	1.13
INTUIT INC	1.11

### Country Exposure

Country	Weight %
Austria	0.16
Belgium	0.31
Canada	4.75
Denmark	0.84
Finland	1.65
France	2.43
Germany	3.93
Greece	0.00
Hong Kong	0.66
Ireland	0.22
Israel	0.62
Italy	0.28
Japan	5.25
Netherlands	1.57
New Zealand	0.07
Norway	0.95
Portugal	0.05
Singapore	0.05
Spain	0.01
Sweden	1.84
Switzerland	1.48
United Kingdom	3.36
US	69.52

## About the Fund

### Investment Objective

The Fund aims to outperform the MSCI World ex Australia Index (unhedged/hedged in Australian dollars with net dividends reinvested) before fees over rolling three-year periods, while maintaining a similar level of risk as its benchmark.

### Fund Strategy

The strategy seeks to add value from stock and industry selection, by using our scientific process that uses local and global investment insights or themes to look for mispriced stocks and industries.

The investment themes used as part of our stock-selection process are grouped under: analyst expectations which anticipate changes in investor expectations about earnings; relative value which looks at multiple measures of underlying fundamental value; earnings quality which assesses the quality and sustainability of earnings; and market information which focuses on sentiment factors and information revealed by management decisions. Our industry-selection models alter exposure to industries using insights that focus on fundamental, economic and technical conditions.

### Should be considered by investors who ...

- ▶ Seek broad exposure to international shares.
- ▶ Seek a fund that blends well with most other active managers because its risk-controlled strategy of taking small active tilts across a large number of stocks tends to produce smaller, but steadier, excess returns on a greater number of stocks.
- ▶ Have a long term investment horizon.
- ▶ For the hedged version, seek to reduce the impact on A\$ returns on those investments that result from currency exposure.

### Fund Details

BlackRock Scientific International Alpha Tilts Fund	
APIR	BGL0047AU
Fund Size	122 mil
Buy/Sell Spread	0.17%/0.17%
Number of Stocks in Fund	522
Number of Stocks in Benchmark	1493
Tracking Error (3 Years p.a.)	1.65%

BlackRock Scientific Hedged International Alpha Tilts Fund	
APIR	BGL0046AU
Buy/Sell Spread	0.18%/0.18%
Fund Size	260 mil

BlackRock Advantage International Equity Fund	
APIR Code	BAR0817AU
Buy/Sell Spread	0.17%/0.17%
Fund Size	691 mil
Management Fee	0.50% p.a.

BlackRock Advantage Hedged International Equity Fund	
APIR Code	BGL0109AU
Fund Size	365 mil
Buy/Sell Spread	0.18%/0.18%
Management Fee	0.53% p.a.

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