

# BLACKROCK ADVANTAGE INTERNATIONAL EQUITY FUND

# BLACKROCK®

FUND UPDATE

31 January 2022

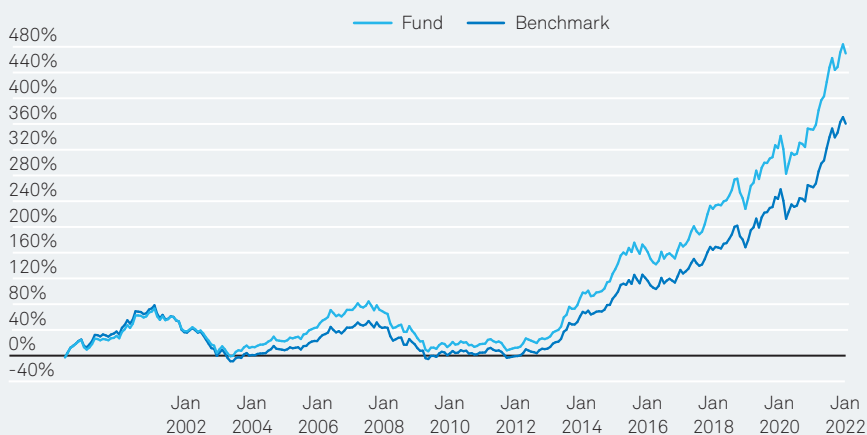
## Investment Performance (%)

	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)	-2.42	3.84	-2.42	26.23	18.12	16.08	9.05
MSCI World ex Australia Index (unhedged in AUD)	-2.20	3.13	-2.20	27.30	18.11	15.12	8.55
Outperformance (Gross of Fees)	-0.22	0.71	-0.22	-1.07	0.02	0.97	0.50
BlackRock Advantage International Equity Fund <sup>2</sup> (Net of Fees)	-2.46	3.71	-2.46	25.64	17.54	15.33	6.62
MSCI World ex Australia Index (unhedged in AUD)	-2.20	3.13	-2.20	27.30	18.11	15.12	6.55
Outperformance (Net of Fees)	-0.27	0.59	-0.27	-1.66	-0.57	0.22	0.07
BlackRock Scientific Hedged International Alpha Tilts Fund <sup>3</sup> (Gross of Fees)	-5.26	-2.16	-5.26	17.60	15.33	13.34	9.89
MSCI World ex Australia Index (hedged in AUD)	-5.07	-2.85	-5.07	18.58	15.47	12.52	9.65
Outperformance (Gross of Fees)	-0.19	0.69	-0.19	-0.98	-0.14	0.82	0.25
BlackRock Advantage Hedged International Equity Fund <sup>4</sup> (Net of Fees)	-5.31	-2.29	-5.31	17.00	14.71	12.56	10.40
MSCI World ex Australia Index (hedged in AUD)	-5.07	-2.85	-5.07	18.58	15.47	12.52	10.90
Outperformance (Net of Fees)	-0.24	0.55	-0.24	-1.58	-0.76	0.04	-0.49

<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 January 2022



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- Market Insights & Commentary
- Fund Performance
- Unit Prices

## Performance Summary

### Market Commentary

The MSCI World Ex Australia Index declined 2.20% in unhedged AUD terms and 5.07% in fully hedged to AUD terms in January 2022.

January was a rough month for financial markets. Volatility spiked on the back of ongoing inflation concerns and central bank tightening, along with increasing political tensions in Europe (especially Ukraine). Markets priced in hawkish pivots by various central banks around the globe, including the US Federal Reserve (Fed) and the Reserve Bank of Australia (RBA). The ensuing higher bond yields contributed to sharp rotations across sectors and styles such as a strong rotation into value stocks and out of growth stocks (especially smaller, less profitable companies). Investors were also grappling with rallying commodity prices and turbulent inflationary readings. Nonetheless, many investors attempt to look through the noise and volatility and focus on the more positive outlook, which points to healthy corporate earnings growth and growing economies as many countries recover from the effects of the Omicron wave.

Most global sharemarkets finished the month in the red (in local currency terms). Developed market equities and emerging market counterparts (to a lesser degree) declined as steeply valued stocks sold-off over the period. Developed market government bond indices also detracted, with strong upside pressure on bond yields as inflationary concerns triggered an end to the supportive rate environment.

US equities represented through the S&P 500 Index declined 5.2% in January, though recovered from the indices worst start in history after reaching lows of -11.4% during the month. A combination of the Federal Reserve's (Fed) increased emphasis on interest rate hikes to battle inflation and escalating tensions in Eastern Europe drove market adjustment sell offs. Energy and Financial stocks held up reasonably well and were the top performing sectors in the US, while Consumer Discretionary and IT declined sharply.

A key event for investors was the Federal Open Market Committee (FOMC) meeting on January 26th where the US Federal Reserve provided an update on monetary policy and rates. The tone of the press conference was perceived as more hawkish than anticipated. A "substantial amount of balance sheet shrinkage" was outlined as a potential scenario and markets started to price in four rate hikes in 2022, with the first one likely to occur in March. Macro data releases were mixed over the period. Both the manufacturing and services Markit PMI dropped sharply as supply disruptions and labour shortages continued. Q4 2021 GDP rose 6.9% YoY, ahead of market estimates of +5.5%.

European equity markets represented through the Euro Stoxx 600 Index declined 2.8% in January, driven by ongoing concerns about inflation, upcoming rate hikes from the US Federal Reserve and uncertainty in Ukraine. Highly valued segments underperformed as a

slowing macro-outlook saw declines within IT and healthcare sectors. Energy and Financials continued to perform strongly over the period.

Within the European block, January headline inflation rose to 5.1% (year-on-year), slightly above December's figure and well above the European Central Bank's (ECB) targeted rate. High energy prices driven by gas supply shortages as well as rising food and goods prices added heavily to the latest inflation reading. Whilst the ECB signalled that rates are unlikely to rise in 2022 despite record inflation, it acknowledged that the 'situation has changed' and remains flexible in its approach to future policy. January PMI readings reflected weakened conditions as the composite PMI dropped to 52.4 on the back of renewed COVID restrictions and a slowdown in services activity. However, there are signs the pandemic appears to be easing with manufacturing PMI rising to 59.0, reflecting improvements in supply bottlenecks that are expected to pick up over the year.

Concerns remain around Europe's energy supply and supply shocks as a result of Russian aggression against Ukraine. A joint EU-US statement sought to support the situation with contingency plans for gas supply disruptions, however any solutions would be purely short-term in nature.

The UK equity market as measured by the FTSE Index gained 1.1% over the month, significantly outperforming most other developed markets. Commodities and Financial stocks rallied whilst Technology detracted over the period. Corporate earnings growth showed resilience over the recent volatile period and the UK economy grew more than expected, as many macro indicators moved closer to pre-pandemic levels.

Asian equities declined in January, in line with their global peers. Chinese equities suffered the most, underperforming the broader Asian market. Weakened sentiment over the US Federal Reserve's hawkish pivot created uncertainty within the Chinese ecosystem, as debt heavy sectors such as Technology and Property detracted heavily over the month. Increased regulation in the technology space also contributed to downfalls as China aims to limit the monopolistic powers of tech giants. China maintained its zero COVID policy pending the commencement of the Winter Olympics games, though breakthrough cases have prompted regional snap lockdowns limiting consumer spending and retail sales growth. The latest data from China's National Bureau of Statistics reported Q4 GDP annual growth rate of +4.0%, down from +4.9% in Q3. The People's Bank of China (PoBC) reduced its benchmark lending rates to lower borrowing costs and spur business activity.

Japanese equities continued to detract in January and declined -6.2% for the month. Japan also felt the wrath of the US interest rate volatility, as technology stock prices were severely undercut. The Bank of Japan (BoJ) held policy rates unchanged during the January meeting in line with consensus.

## Strategy Commentary

The international stock selection strategy underperformed the falling benchmark. Cross Border Thematics and Quality were the worst performing insight groups, whilst Value managed a modest gain. Sentiment in North America was the main area of contribution at the insight level, with European Sentiment the main area for detraction. At a regional level, Europe was the main laggard, across a number of sectors such as Financials (underweight), and Industrials (overweight). North America added, via favourable positioning in Communications and overweights in Energy, with Asia remaining flat. Overall the drag from underweights in Financials, and overweights in Industrials, overcame the smaller gains from the overweights in Energy and underweights in the Communications sector.

Positive contributors to performance included overweight positions in EOG Resources and Merck & Co.

**EOG Resources** – The North American Energy company was helped by rising oil prices, as the company stood ready to increase production if needed. Valuation and Quality insights drove the overweight position.

**Merck** – American pharmaceutical firm Merck payment company performed well in January, announcing its oral antiviral was effective (in-vitro) against the Omicron variant of Covid-19. Positive Cross Border Thematics, Valuation and Quality led to an overweight position.

Detractors from performance included overweight positions in ASML Holding and Estee Lauder.

**ASML Holding** – Dutch semiconductor industry supplier ASML Holdings drifted lower through the month, even though earnings improved and it noted a fire at its Berlin plant would not have a significant impact on output. The overweight position resulted from a number of positive insight groups, including Sentiment, Quality and Cross Border Thematics.

**Estee Lauder** – American beauty firm Estee Lauder started the year weaker, before rallying into its quarterly result. Favourable Momentum insights was the main driver for the overweight position, with Sentiment also providing some support.

### Top Active Holdings

Overweight	Underweight
VISA INC CLASS A	META PLATFORMS INC CLASS A
JOHNSON & JOHNSON	UNITEDHEALTH GROUP INC
WALMART INC	PROCTER & GAMBLE
INTUIT INC	NESTLE SA
DTE ENERGY	MASTERCARD INC CLASS A

### Top Holdings

Holding	Weight %
APPLE INC	4.82
MICROSOFT CORP	4.71
AMAZON COM INC	2.03
ALPHABET INC CLASS C	1.77
JOHNSON & JOHNSON	1.73
VISA INC CLASS A	1.64
WALMART INC	1.32
MERCK & CO INC	1.25
ASML HOLDING NV	1.23
AT&T INC	1.22

### Country Exposure

Country	Weight %
Austria	0.17
Belgium	0.02
Canada	5.17
Denmark	0.51
Finland	1.47
France	2.86
Germany	3.91
Greece	0.00
Hong Kong	0.52
Ireland	0.11
Israel	0.55
Italy	0.12
Japan	4.68
Netherlands	2.63
New Zealand	0.02
Norway	0.91
Portugal	0.16
Singapore	0.02
Spain	0.87
Sweden	1.55
Switzerland	1.33
United Kingdom	2.74
US	69.67

## 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	478
Number of Stocks in Benchmark	1482
Tracking Error (3 Years p.a.)	1.49%

BlackRock Scientific Hedged International Alpha Tilts Fund	
APIR	BGL0046AU
Buy/Sell Spread	0.18%/0.18%
Fund Size	247 mil

BlackRock Advantage International Equity Fund	
APIR Code	BAR0817AU
Buy/Sell Spread	0.17%/0.17%
Fund Size	685 mil
Management Fee	0.50% p.a.

BlackRock Advantage Hedged International Equity Fund	
APIR Code	BGL0109AU
Fund Size	343 mil
Buy/Sell Spread	0.18%/0.18%
Management Fee	0.53% p.a.

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