

BLACKROCK ADVANTAGE INTERNATIONAL EQUITY FUND

BLACKROCK®

FUND UPDATE

31 August 2020

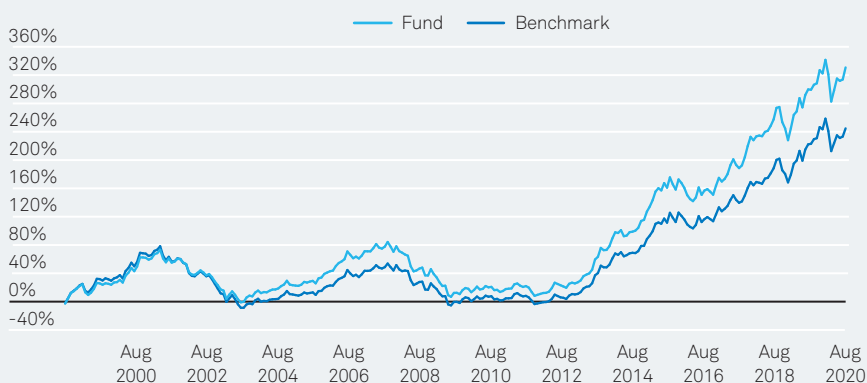
Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
BlackRock Scientific International Alpha Tilts Fund ¹ (Gross of Fees)	4.11	3.77	1.98	7.87	13.72	10.12	8.02
MSCI World ex Australia Index (unhedged in AUD)	3.47	2.93	0.35	6.73	12.58	9.55	7.41
Outperformance (Gross of Fees)	0.64	0.84	1.63	1.14	1.14	0.57	0.61
BlackRock Advantage International Equity Fund ² (Net of Fees)	4.07	3.65	1.65	7.34	12.94	9.28	5.77
MSCI World ex Australia Index (unhedged in AUD)	3.47	2.93	0.35	6.73	12.58	9.55	5.61
Outperformance (Net of Fees)	0.60	0.72	1.30	0.62	0.36	-0.28	0.16
BlackRock Scientific Hedged International Alpha Tilts Fund ³ (Gross of Fees)	6.74	12.95	3.33	12.96	9.87	10.67	9.23
MSCI World ex Australia Index (hedged in AUD)	6.15	12.16	1.96	12.12	8.93	10.25	8.90
Outperformance (Gross of Fees)	0.59	0.79	1.37	0.84	0.94	0.42	0.34
BlackRock Advantage Hedged International Equity Fund ⁴ (Net of Fees)	6.70	12.81	2.96	12.36	9.06	9.77	9.87
MSCI World ex Australia Index (hedged in AUD)	6.15	12.16	1.96	12.12	8.93	10.25	10.28
Outperformance (Net of Fees)	0.55	0.66	1.00	0.25	0.13	-0.48	-0.42

¹ Fund inception: 15/04/2004. ² Fund inception: 31/12/1997. ³ Fund inception: 15/04/2004. ⁴ 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 August 2020



Visit [BlackRock.com.au](https://www.blackrock.com.au) for further information, including:

- Market Insights & Commentary
- Fund Performance
- Unit Prices

Performance Summary

Market Review

The MSCI World Ex Australia Index gained 3.47% in unhedged AUD terms and 6.15% in fully hedged to AUD terms over the month of August.

Global equities continued to advance in August, with several sharemarkets approaching new all-time highs. The real economy also showed signs of improvement in August but remained far below pre-Covid levels. Most global economies are still struggling with the impacts of the pandemic and the accompanying lockdown restrictions that brought activity to a virtual standstill – with several countries officially in a recession. While the worst of the economic contraction appears to be behind us, the path of the rebound remains highly uncertain and the reopening of economies is progressing in a choppy fashion. Some countries that initially contained the virus reasonably well are battling with virus flare-ups and restrictions have been re-imposed in countries such as Japan, Australia, Hong Kong and parts of Europe. The uncertainty in activity resumption has led to wide variations in economic growth forecasts and corporate earnings guidance. In addition, investors are confronted with amplified geopolitical tension, ballooning government debt levels, high unemployment globally and concerns of a fiscal cliff if government support ends prematurely.

US equities were amongst the best performers in August, with the S&P500 index gaining over 7% and reaching new all-time highs. This marks a key milestone from the sharp sell-off seen in March, making this rally one of the fastest bear-market recoveries in history. The US economy has not had a chance to recover as swiftly from the plunge in activity. Economic indicators continued to improve in August but stayed below pre-pandemic levels for the most part. For example, industrial production (including manufacturing utilities and mining) improved in August but remained well below levels seen in January and February. Unemployment in the US also remained elevated. Retail sales figures were a positive highlight (about 1% higher compared to the January highs), yet the composition has changed significantly. Consumers have redirected spending from travel, leisure and services to durables and other hard goods. The US housing market also proved to be resilient. The latest data showed that new and existing home purchases in the US exceeded their pre-pandemic levels.

Another key development in August was the announcement by the US Federal Reserve Bank ('Fed') to adopt a new framework on average inflation targeting; i.e. the Fed aims to achieve an inflation rate averaging 2% over time, rather than at any point in time. There were however no real details on how average inflation is defined, or how the Fed would achieve this new target given the inability

to meet the previous inflation target consistently over the past decade. The Fed also revised its policy stance around changes in employment, which could connect future decisions on interest rate hikes to unemployment figures rather than inflation. Even though the announcement lacked details around implementation, many market participants believed that this implies accommodative monetary policy for even longer (which ultimately supports share prices).

European equity markets also gained in August. Eurozone leading indicators continued to point to encouraging economic activity. The Economic Confidence index rose to a five-month high and the ZEW survey of economic growth expectations (a monthly survey of experts published by the Leibniz Center for European Economic Research) improved by more than expected. However, the ZEW survey results showed that experts were less upbeat about current economic conditions, with this metric worsening slightly in August. Developments around fiscal policy in Europe were positive, especially in France and Germany. The German government agreed to provide job preserving subsidies until the end of 2021, while the French government pointed to an additional €100 billion stimulus plan.

In the UK, the FTSE 100 Index gained almost 2% in August but continued to underperform its global peers. UK equities are still down nearly 20% on a year-to-date basis (as of 31 August 2020). The UK has been one of the worst-affected developed economies in the Covid-19 pandemic. GDP fell 22% (non-annualised) between Q4 2019 and Q2 2020. Part of this is due to the service sector making up a larger proportion of the UK's overall economy (around three-quarters of UK's GDP). Lockdown restrictions also lasted longer in the UK than in other countries, as virus infection rates were slower to drop – which in itself was a function of lockdowns being imposed later than elsewhere. Some economic indicators (e.g. retail sales) have started to pick up in the UK, but services remained depressed.

Asian equity markets generally recorded positive performance in August. Asia appears to be further along in the pandemic cycle and economic activity is approaching levels seen before the crisis – especially in China. Industrial profits reported by Chinese companies increased strongly last month and are now nearly 20% higher compared to last year - the highest level since March 2019. The Chinese services and manufacturing sectors also continued to recover. Chinese equities are amongst the best performers year-to-date, up nearly 20%. However, intensifying geopolitical tension between China and the US remains a key risk. In Japan, the Nikkei index gained nearly 7% in August but lost momentum towards the end of the month following Minister Shinzo Abe's shock resignation. Mr Abe is Japan's longest-serving leader and he pointed to his deteriorating health as a reason for his resignation.

Strategy Commentary

The international stock selection strategy had a very positive month in both absolute terms and relative to its benchmark. Sentiment and Momentum signals that did well, along with Cross-Border Thematics, whilst Fundamentals were not rewarded, as both Valuation and Quality insights detracted. Most of the performance came from Momentum and Cross Border Thematics in the US even though these insights were generally weak in Europe. Looking at sectors, overweights Information Technology and Consumer Discretionary in North America contributed positively to performance. Healthcare in Europe and North America also did well. Conversely, Consumer Staples in Europe was generally weak due to overweights in beverages names. Overall Consumer Discretionary, Information Technology, Healthcare and Materials contributed while Financials and Industrials detracted the most.

Positive contributors to performance included overweight positions in Salesforce and Gap.

Salesforce – American customer software firm Salesforce reported its latest quarterly results well above market expectations and provided strong forward guidance as more businesses continue to reach out to their clients through digital means. The overweight position was due to favourable views across most insight groups, especially Cross Border Thematics, Quality and Sentiment.

Gap – American apparel giant Gap's share price rallied after investors realised the strong growth potential for the company's athletic brand, Athleta, recently valued at over \$3billion. The overweight position was driven by favourable Momentum and Quality insights.

Detractors from performance included overweight positions in American Tower Corp and Diageo.

American Tower Corp – American Communication Services Reits missed market expectations with its latest results, blaming a decline in revenues in its property segment in Asia and Latin America. The overweight position resulted from positive views on Sentiment, Cross Border Thematics, and Momentum.

Diageo – British beer and spirits producer Diageo has been struggling with the closure of bars, restaurants and clubs during the pandemic. Despite an increase in at home consumption, volumes are likely to remain low for the rest of the year. The overweight position was a result of favourable Sentiment, Cross Border Thematics, and Momentum insights.

Top Active Holdings

Overweight	Underweight
HOME DEPOT INC	BERKSHIRE HATHAWAY INC CLASS B
INTUIT INC	ADOBE INC
MICROSOFT CORP	VERIZON COMMUNICATIONS INC
SALESFORCE.COM INC	BANK OF AMERICA CORP
SIKA AG	NOVARTIS AG

Top Holdings

Holding	Weight %
APPLE INC	4.62
MICROSOFT CORP	4.37
AMAZON COM INC	3.52
HOME DEPOT INC	1.53
ALPHABET INC CLASS A	1.51
ALPHABET INC CLASS C	1.49
SALESFORCE.COM INC	1.28
FACEBOOK CLASS A INC	1.27
JOHNSON & JOHNSON	1.26
NESTLE SA	1.18

Country Exposure

Country	Weight %
Austria	0.01
Belgium	0.20
Canada	2.25
Denmark	0.50
Finland	0.15
France	4.44
Germany	3.72
Greece	0.00
Hong Kong	0.73
Ireland	0.12
Israel	0.27
Italy	0.77
Japan	7.37
Netherlands	1.19
New Zealand	0.00
Norway	0.52
Portugal	0.19
Singapore	0.12
Spain	0.84
Sweden	0.41
Switzerland	2.67
United Kingdom	3.72
US	69.80

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	124 mil
Buy/Sell Spread	0.17%/0.17%
Number of Stocks in Fund	616
Number of Stocks in Benchmark	1545
Tracking Error (3 Years p.a.)	1.83%

BlackRock Scientific Hedged International Alpha Tilts Fund	
APIR	BGL0046AU
Buy/Sell Spread	0.18%/0.18%
Fund Size	255 mil

BlackRock Advantage International Equity Fund	
APIR Code	BAR0817AU
Buy/Sell Spread	0.17%/0.17%
Fund Size	657 mil
Management Fee	0.50% p.a.

BlackRock Advantage Hedged International Equity Fund	
APIR Code	BGL0109AU
Fund Size	350 mil
Buy/Sell Spread	0.18%/0.18%
Management Fee	0.53% p.a.

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