BLACKROCK CONCENTRATED INDUSTRIAL SHARE FUND

BLACKROCK®

FUND UPDATE **30 November 2020**

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs pa	Since Incep[1] pa
The Fund (Net of Fees)	**4.77**	**4.73**	**7.81**	**4.51**	**6.24**	**10.79**
Benchmark[2]	8.55	6.73	1.00	-2.39	7.10	9.54
Outperformance (Net of Fees)	-3.78	-2.00	6.82	6.90	-0.85	1.25
S&P/ASX 300 (for comparative purposes)	10.23	8.27	0.41	-1.62	7.06	9.55

[1] Performance of the fund is an adjusted combination of the past performance of class X and class D to illustrate performance of the strategy since inception of the fund. It is for illustrative purposes only to show the performance of class D as if its inception date of that class was 9 December 2015. The unadjusted past performance of class D is set out [below]. Please see ^ in the footnotes for further information.

[2] S&P/ASX300 Industrials Accumulation Ex Top 5 Stocks by Mkt Cap Gross Index

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs pa	Since Incep pa
Class D (net of fees)	4.77	4.73	7.81	4.51	6.24	9.87

Please see ^^ in the footnotes of further information.

Performance Summary

Fund Review

The fund continued to deliver positive returns for investors this month, gaining +4.8% in absolute terms, however it underperformed its strongly performing benchmark.

November was an eventful month for equities globally and in Australia. On November 9th, the announcement of a potential effective covid-19 vaccine by Pfizer-BioNTech resulted in a market rotation, leading investors to sell off the beneficiaries of the pandemic in favour of the value and cyclical names that had suffered the most since the first round of lockdowns. Some of our more value focused names performed well during the month including Qantas, Star Entertainment, Monash, CSR and the mining service/contractor names. The underperformance was concentrated across just a few names that had been strong performers year to date and saw investors take profits post the vaccine news. In most cases nothing fundamentally has changed, and we have already seen a recovery in their performance in December. As a style agnostic fund we are still finding good opportunities in both growth and value names and we believe a concentrated portfolio of these best ideas provide investors with diversification and superior returns regardless of what style factor (value or growth) is performing well at the time.

Another driver of the overall market gains was the outcome of the US presidential election. Volatility had increased leading into the election but has dramatically fallen since which has seen investor risk appetite rise. A democratic win has given the market confidence that further stimulus packages in the US will be announced and the fact the Republicans retained control of the Senate means tax increases or increased regulation will not be as forth coming as they could have been if we had seen a blue wave.

As we look into the first half of calendar year 2021, equities continue to look attractive in a world where interest rates have been pinned to very low levels by central banks. We are likely to see synchronised global growth again as the world emerges from heavy lockdowns and we cycle over extremely low levels of economic activity from the same period in 2020. On a more medium term view a high degree of uncertainty remains as to what level of economic output we return to once the vaccines allow a resumption of normal life and what permanent changes we will see to how employers and consumers behave. The abundance of winners and losers has proven a fertile ground for active managers and we continue to find names that meet our five quality filters and

Portfolio Management Team

Charles Lanchester,
Portfolio Manager

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that we think can continue to invest capital well for the long term to compound shareholder wealth..

Fund Performance and Stock Selection

The fund returned +4.8% for the month, net of fees, underperforming its benchmark (ASX300 Industrials ex Top 5 Market Cap Index) return of +8.6% by -3.7%. Over the last 12 months, the fund has outperformed its benchmark by +7.8% and the broader market (as measured by the ASX300 Accumulation Index) by +7.0% over the same period.

On a market adjusted basis, amongst the top contributors for the month were our positions in Redbubble (RBL) and Qantas (QAN) while Kogan (KGN) and Fineos (FCL) were amongst the top detractors.

Contributors

RBL – As we have mentioned in previous updates, Redbubble is an exciting global online marketplace which connects over 500,000 independent artists with customers who can then use the designs to create personalised products. Redbubble has recently appointed former Seek head of ANZ, Michael Ilczynski as its new CEO, which was well received by the market. We have met Michael many times while he was at Seek and think he has excellent credentials to run Redbubble.

QAN – We re-established a position in Qantas in September as we believed the reopening of domestic boarders as well as news around a number of promising vaccines that had phase 3 trial data due in November would be a catalyst for the shares. Qantas has taken significant cost out of the business and the level of pent up demand domestically should enable capacity to get back to pre covid-19 levels early in 2021. The share price has rallied close to 40% since we made the investment and we have recently reduced the position as believe a lot of the good news is now factored in.

Detractors

KGN – Kogan was the largest detractor in the fund this month. After the incredible rally over the past few months with the acceleration of online retail due to the pandemic, Kogan was sold off during the market rotation. There is an assumption that e-commerce might struggle in 2021 as economies reopen, however, we believe that consumers' behaviour will not revert, and online retail will continue to expand. As a result, Kogan remains a core position in the fund.

FCL – Fineos underperformed in November after the company told the market at its AGM that the outlook for the business was a little uncertain at the moment due to clients reducing budgets as well as uncertainty caused by the US presidential election. They also said the revenue contribution from the recently acquired Limelight business would be lower than initially expected which is disappointing given how soon after the acquisition this has happened. Pleasingly, the software side of the business is still expected to grow at close to 30%, which is the key value driver and the weakness is in the services side where revenue growth has slowed. We believe the slowing growth rate on services is partially due to the success the company had in FY20 with services revenue significantly outperforming making for a difficult comp in FY21. We had been reducing the position slightly after the strong reaction to the acquisition however after the pullback we think the stock is over sold now and not reflective of the dominant position Fineos enjoys and the many years of growth ahead of them.

Top 10 Holdings Alphabetically

Stock
CENTURIA CAPITAL STAPLED UNITS
GOODMAN GROUP UNITS
KOGAN.COM LTD
MONASH IVF GROUP LTD
NINE ENTERTAINMENT CO HOLDINGS LTD
NRW HOLDINGS LTD
REDBUBBLE LTD
SONIC HEALTHCARE LTD
THE STAR ENTERTAINMENT GROUP LTD
WOOLWORTHS GROUP LTD

Source: BlackRock

Sector Exposure

Sector	Weight %
Communication Services	11.08
Consumer Discretionary	21.24
Consumer Staples	10.44
Financials	0.97
Health Care	14.74
Industrials	16.44
Information Technology	6.66
Materials	4.30
Real Estate	13.51
Utilities	-

Source: BlackRock

About the Fund

Investment Objective

The Fund aims to deliver returns that are 4-6% (before fees) p.a. above those of the S&P/ASX 300 Industrials Accumulation Index ex top 5 stocks by market capitalisation (Benchmark) over rolling 3-year periods.

Fund Strategy

Our investment style is based on the belief that a small team of experienced investment professionals focusing on the quality stocks in the market, will outperform over the long-term.

The Fund applies a fundamental approach that is focused on bottom up analysis, where detailed research is conducted prior to any investment decision. There is a strict focus on quality first and only those companies that meet the following quality filters will be considered for inclusion in the Fund:

- Quality management: We will not invest in a company without a rigorous assessment of the board and management team. This will generally involve direct contact with key personnel.
- Moderate debt levels: A company's interest coverage ratio measures how many times over that company could pay its current interest payment with its available earnings. We will not invest in any company with an interest coverage ratio of less than four times.
- Profits: We will only invest in businesses that can demonstrate a history of recurring profits.
- Superior businesses: We will only invest in quality businesses that can be clearly understood and explained in a simple manner.
- Environmental, social and governance (ESG): BlackRock has a dedicated Corporate Governance and Responsible Investment team. With their help, we will assess relevant information relating to the environmental, social and governance risks that may impact company valuations for each investment opportunity and incorporate this into the investment process.

We believe that the focus on quality first adds significant outperformance, particularly in times of market dislocation, where successful investing is as much about avoiding the losses as picking the winners.

Fund Details

BlackRock Concentrated Industrial Share Fund	
APIR Code (D Class)	BLK0012AU
Fund Size/strategy Size	$202m/$721m
Buy/Sell Spread	0.275%/0.275%
Management Fee	0.85%
Performance Fee	15%
Liquidity	Daily

^ The BlackRock Concentrated Industrial Share Fund ("Fund") is structured to allow for different classes of units with different fee structures. The same investment strategy is applied holistically across all unit classes in the Fund. The first class of units for the Fund ("class X") was launched on 9 December 2015 with more than $220m of assets. A second unit class ("class D") was launched for retail investors on 4 January 2016. This report is designed for class D unit holders. In order to illustrate the performance of the Fund's strategy across both classes since the official launch date of the Fund on the 9 December 2015, performance since inception quoted here is based on the period from 9 December 2015. Performance figures quoted here apply the fees charged to the class D units in order to provide class D unitholders with an estimated performance estimate over the period. This adjustment is estimated and unaudited and is for illustrative purposes only. Past performance is not a reliable indicator of future performance. Net of fees performance is calculated on exit-to-exit price basis, e.g. net of ongoing fees, performance fees and expenses.

^^ Performance figures represent past performance and are not indicative of future performance. Current performance may be higher or lower than that shown. Net performance figures are calculated after fund management fees and expenses, and assume reinvestment of distributions. Unless otherwise stated, performance for periods greater than one year is annualised and performance calculated to the last business day of the month.

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