

BLACKROCK STYLE ADVANTAGE FUND (AUST)

BLACKROCK®

FUND UPDATE

30 June 2021

Investment Performance (%)

	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Style Advantage Fund (Aust) (Gross of fees)	0.04	2.16	6.52	-0.83	-7.01	-	-3.97
Bloomberg AusBond Bank Bill Index	0.00	0.01	0.01	0.06	0.96	-	1.24
Outperformance (Gross of Fees)	0.04	2.15	6.51	-0.89	-7.96	-	-5.21
BlackRock Style Advantage Fund (Aust) (D-Class) (Net of fees)	0.00	2.02	6.03	-1.62	-7.66	-	-4.79
Bloomberg AusBond Bank Bill Index	0.00	0.01	0.01	0.06	0.96	-	1.24
Outperformance (Net of Fees)	-0.01	2.01	6.02	-1.68	-8.62	-	-6.03

Fund inception is 30-Nov-2016. The investment strategy set out in this fund update commenced on the inception date of 30-Nov-2016. Performance information in this fund update is only shown from the inception of the fund and is short term in nature. Performance returns over this period may not be indicative of the long term performance. Performance is calculated in Australian dollars and assumes reinvestment of distributions. Performance for periods greater than one year is annualised. Gross performance is calculated gross 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. Net performance is calculated on an exit-to-exit price basis, e.g. net of ongoing fees, performance fees and expenses.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

Style factor performance - Month to date*

Carry	Value	Momentum	Defensive
Fixed Income Carry	-	Equity Value ↓	Equity Momentum -
FX Carry	↑	Equity Markets Value -	Equity Markets Momentum ↑
Equity Markets Carry	-	FX Value -	FX Momentum ↑
	Fixed Income Value	↑	Fixed Income Momentum ↓
Negatively detracting	↓	*Style factor performance is broadly classified as negatively detracting, neutral, or positively contributing.	
Neutral	-	For illustrative example only. This is not a securities recommendation. This represents fund performance versus benchmark as at date of publication.	
Positively contributing	↑		

Market Overview

Most financial markets gained in June and over the quarter, as reopening optimism and the accelerated vaccine rollout continued to drive positive performance across markets. This dynamic continues to be supported by ongoing government support from a monetary and fiscal perspective.

Within equities, developed economies had a particularly positive quarter. Governments in most developed markets have eased COVID-related mobility restrictions and activity levels have picked up alongside strong consumption growth, particularly in the US. However, upbeat market sentiment saw pockets of concern due to the spread of the highly transmissible Delta variant, inflation spikes and central bank narratives. The increased spread of the Delta variant has caused renewed virus flare-ups in parts of the world, along with new mobility restrictions in certain countries. Emerging economies continued to lag on the vaccination front, and EM equities underperformed their developed counterparts over the quarter.

The US dollar depreciated early in the quarter, but bounced back strongly in June, following the surprisingly hawkish shift in the US Fed's rate outlook. Fixed income markets broadly recorded positive performance over the quarter, as longer-term bond yields declined.

Fund Performance – June 2021

The BlackRock Style Advantage Fund posted a relatively flat month in June, bringing the return for the quarter to +2.02% (after fees).

June saw a rather notable rotation with inflationary pressure coming to a head by an increasingly (perceived) hawkish stance from the US Fed. The shifting of the Fed's timetable for tightening was felt across asset classes with strong moves in the US dollar, rates, global equities, and commodities. Under this backdrop, the strategy saw some underperformance across previous reflation winners as single name equities weighed, while currencies and equity markets provided a positive ballast, and fixed income finished around flat. From a factor perspective, Value rotated out of favor and detracted in June. Low Volatility and Momentum saw marginal detracting, while Quality and Carry, and Timing strategies contributed positively.

In equity markets, all three factors finished in positive territory in June, punctuated by a strong run for Momentum. Emerging market country selection was the stronger side of the book as long Taiwanese equities led contribution following sharp run-up for the semiconductor and electronics heavy market, which was reeling off of a recent downturn. The developed market side of the book traded slightly choppy as a Value-driven tilt towards European markets was accretive, but effectively negated by short exposure to North American and Australia equities, the latter of which had the strongest impact as local markets continued their run-up by way of a combination of financials, IT, and mining.

In the fixed income book, performance was roughly flat as Value strategies did the heavy lifting, offsetting the majority of underperformance from a combination of Momentum and Carry insights. Both EM and DM rates were a mixed bag. Contributing positions included a pull back in one of the most profitable positions over the year, short Polish duration, as the central bank governor kept rates at record lows; and a long Australian rates position making up substantial ground following a rate hold and accommodative policy from the RBA.

Currencies fared well over the period as Carry and Momentum insights drove positive P&L, while Value hovered close to flat. Strong security selection drove return contribution, mainly in the short book for both DM and EM. Contributions came from shorts in the Australian dollar and Euro in the wake of investors pricing in dovish central bank activity and little immediate case for rate hikes, particularly relative to the strengthening U.S. dollar over the latter half of the month; as well as a short Taiwan dollar and Korean won, which benefitted from a retreat in the region following some risk-aversion after the mid-June Fed meeting as well as a rising count of new local infections; and short Polish zloty exposure, which added as the central bank telegraphed its highly accommodative stance.

Single name equities, the top returning asset class over the first half of the year, experienced a reasonably tougher finish to the period as the Fed's messaging resulted in a rotation out of Value and towards growth-oriented names. To this extent, the majority of detracting over the month stemmed from the Value factor, with some lesser pullback in Low Volatility, while Quality continued on its sturdy ascent, Timing added single digit basis points due to its pro-Quality tilt, and Momentum finished flat. From a sector perspective, the main underperformers were within consumer staples and financials, while gains in health care and IT buoyed the asset class somewhat – although hitting a rough patch in Value, both had an exceptional month along Quality dimensions. Regionally, underperformance was split across the U.S., Europe, and Japan, while Asia ex-Japan fared substantially better, finishing up across most buckets

Asset class performance attribution (%)*

Asset class	MTD Contribution	QTD Contribution	YTD Contribution
Equity Markets	0.44	-0.02	0.94
Single Name Equities	-0.63	0.67	2.68
Fixed Income	-0.02	0.64	0.93
Currencies	0.48	0.76	2.79
Other**	-0.23	0.10	-0.82

*Attribution is from Aladdin

**Other captures performance attribution that cannot be attributed to the four categorisations above.

About the Fund

Investment Objective

The Fund aims to deliver returns that are 7% per annum above those of the Bloomberg AusBond Bank Bill Index, before fees, over rolling 3-year periods.

Fund Strategy

Style investing has been used for decades to enhance returns. The existence of such returns can be explained by a reward for bearing exposure to certain risks or due to structural or behavioural anomalies.

Reward for bearing risk refers to the concept that investors are paid a premium for being exposed to more risk than the market portfolio. For example, value and momentum are likely to experience periods of short-term underperformance at certain points in the business cycle. Long-run excess returns can be earned if investors are willing to accept short-term volatility.

Structural anomalies are caused by the existence of investment constraints preventing investors from making decisions purely on investment merits.

Behavioural anomalies have been extensively documented in academic literature; in essence, investors appear to make investment decisions that could not be justified under a hypothesis of pure rationality, which in turn causes asset prices to diverge from their fundamental values.

Through the application of systematic trading strategies, as implemented via our style factor strategies, the Underlying Fund seeks to capture a positive return linked to the persistence of these anomalies.

The investment strategy of the Underlying Fund allocates to a variety of style factor strategies, which are broad persistent drivers of returns with historically low correlation to traditional asset classes and a differentiated return profile to traditional long-only strategies. Through diversification across styles, the investment strategy seeks to achieve consistent returns in major asset classes including but not limited to equities, bonds and currencies. At the same time the investment strategy seeks to limit downside risk by dynamically managing overall exposure during market turmoil.

The style factors which may be used include, but are not limited to:

- ▶ **Value** will focus upon investments that appear relatively cheap with an aim to benefit from outperformance relative to expensive assets.
- ▶ **Momentum** will focus on investments with relatively strong medium-term performance and will aim to benefit from the tendency that an asset's recent relative performance will continue in the short term.
- ▶ **Carry** focuses on higher-yielding investments and aims to benefit from the higher returns provided by these assets relative to lower-yielding assets.
- ▶ **Defensive** refers to investments with low-risk characteristics that aim to benefit from the tendency for lower risk, higher quality assets to generate higher risk-adjusted returns than higher risk, lower quality assets.

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Fund Details

BlackRock Style Advantage Fund (Aust)	
Fund Size	\$31,815,574
Buy/Sell Spread	N/A
Liquidity	Daily
Minimum Initial Investment Institutional	\$500,000
Minimum Initial Investment D Class	\$50,000
Domicile	Australian Unit Trust
Custodian	J.P. Morgan Chase Bank
Management Fee	0.65%
Performance Fee	10%