

BLACKROCK STYLE ADVANTAGE FUND (AUST)

BLACKROCK®

FUND UPDATE

31 December 2020

Investment Performance (%)

	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Style Advantage Fund (Aust) (Gross of fees)	-0.43	-5.09	-22.12	-22.12	-9.81	-	-5.91
Bloomberg AusBond Bank Bill Index	0.00	0.02	0.37	0.37	1.26	-	1.39
Outperformance (Gross of Fees)	-0.43	-5.11	-22.49	-22.49	-11.07	-	-7.30
BlackRock Style Advantage Fund (Aust) (D-Class) (Net of fees)	-0.48	-5.25	-22.65	-22.65	-10.40	-	-6.71
Bloomberg AusBond Bank Bill Index	0.00	0.02	0.37	0.37	1.26	-	1.39
Outperformance (Net of Fees)	-0.49	-5.27	-23.02	-23.02	-11.66	-	-8.10

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 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	↓	Equity Quality	↑
FX Carry	-	Equity Markets Value	↑	Equity Markets Momentum	↑	Equity Low Volatility	↓
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. For illustrative example only. This is not a securities recommendation. This represents fund performance versus benchmark as at date of publication.					
Neutral	-						
Positively contributing	↑						

Market Overview

Sharemarkets across the globe advanced over the fourth quarter of 2020, with many indices reaching new all-time highs following a year that contained a global pandemic, record-breaking recession and a contentious US presidential election. Risk appetite improved over the quarter as the US election came to an end and positive COVID-19 vaccine news stoked investor optimism. On November 9th, Pfizer-BioNTech announced that its clinical trial has returned preliminary results suggesting that its vaccine is over 90% effective in preventing COVID-19 (well above expectations). A few days later, another drug maker – Moderna – also reported strong trial results. This was followed by news of a third potential COVID-19 vaccine candidate developed by the company AstraZeneca in partnership with the University of Oxford. Within weeks the Pfizer-BioNTech vaccine was approved in Europe and the US – with the vaccine administered to the first patient in the UK on December 8th. Later in December, the US Food and Drug Administration (FDA) authorized the country's second vaccine (Moderna), clearing the way for millions of doses to be released in the US within weeks. Other countries, including Australia, are also planning to approve a COVID-19 vaccine in the weeks ahead triggering hope that mass immunization could bring an end to the global pandemic and speed up the economic recovery.

Fund Performance – Q4 2020

The BlackRock Style Advantage Fund (Aust) declined 0.48% in December (after fees) and 5.25% over the quarter. Although broad market indices enjoyed positive performance over the period, there was a lot happening under the surface. The positive vaccine news triggered sharp rotations and major swings in financial markets. Cyclical sectors and industries that had previously suffered relatively weaker performance outperformed significantly, while recent winners struggled. Momentum stocks (i.e. those that have been trending higher) underperformed significantly, with Momentum experiencing one of the sharpest and deepest drawdowns in history in November – driving most of the Fund's losses over the quarter.

Momentum strategies worked poorly across all asset classes (especially in November), but the drawdown was most pronounced in single name equities. Momentum strategies recovered somewhat in December but not enough to push the quarterly contribution into positive territory. From an asset class perspective, single name equities continued to drive the Fund's overall underperformance over the quarter and over the year. Style factor performance across the other asset classes was fairly muted over the quarter. Currencies and Equity Markets (i.e. positioning across equity countries) generated small positive returns, while fixed income detracted slightly.

Style factor performance within single name equities was the key driver of the Fund's overall underperformance in Q4, driven by the historic drawdown in Momentum in November. The shift away from the post-March work-from-home trade led the short side of the book to significantly underperform the long side. In addition, Low Volatility stocks underperformed as these stocks could not keep up with the recent market rally. From a sector perspective, the majority of the underperformance was in industrials, consumer discretionary, and to a lesser extent, information technology.

Positioning across Equity Markets generated a small positive contribution over the quarter. Cross-country positioning in Europe and a net long position to US equities worked well. Positioning across Asia was also beneficial. The dominating deflation trade led to strong rallies in some of our long country positions (e.g. tech-heavy Korea and Taiwan). From a style factor perspective, Value and Carry performed best over the quarter while Momentum detracted.

Style factor performance within currencies also led to a small positive contribution in Q4. FX Momentum recovered in December, while FX Value also generated positive returns over the quarter. On the flipside, FX Carry detracted and offset performance. Commodity currencies were some of the top contributors in the cross-section. For example, long positioning in CAD, NOK and NZD were beneficial over the quarter and only partially offset by a short AUD positioning. A similar dynamic played out in emerging markets, where gains in commodity-sensitive longs (e.g. long RUB, long MXN, long ZAR) were offset by losses in short Latin American (short BRZ, short CLP).

Style factor performance within fixed income markets was slightly negative over the quarter, driven by Carry and Value. Rates sold off following the recent shift in market sentiment, which caused our long Australian duration position to be one of the key underperformers. Positioning across emerging markets was positive, driven by gains in Chinese, Indian and South African rate markets.

Asset class performance attribution (%)*

Asset class	MTD Contribution	QTD Contribution	YTD Contribution
Equity Markets	0.26	0.35	-2.13
Single Name Equities	-0.65	-5.19	-20.28
Fixed Income	-0.37	-0.81	-0.63
Currencies	0.33	0.68	0.66
Other**	0.01	-0.13	-0.11

*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	\$150,669,485
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%