

# BLACKROCK ADVANTAGE INTERNATIONAL EQUITY FUND

# BLACKROCK®

FUND UPDATE

30 September 2022

## Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
BlackRock Advantage International Equity Fund <sup>1</sup> (Net of Fees)	-2.87	0.12	-16.74	-10.77	5.75	9.22	5.76
MSCI World ex Australia Index (unhedged in AUD)	-3.23	0.35	-15.84	-9.79	6.33	9.65	5.72
Outperformance (Net of Fees)	0.36	-0.23	-0.90	-0.97	-0.58	-0.43	0.04
BlackRock Advantage Hedged International Equity Fund <sup>2</sup> (Net of Fees)	-8.53	-5.39	-24.35	-18.39	3.31	4.76	8.77
MSCI World ex Australia Index (hedged in AUD)	-8.91	-5.18	-23.54	-17.51	4.03	5.31	9.29
Outperformance (Net of Fees)	0.38	-0.21	-0.81	-0.88	-0.72	-0.56	-0.51

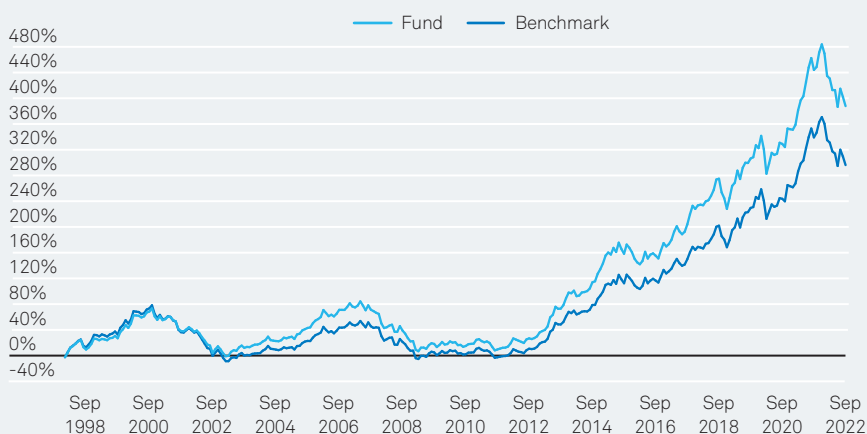
<sup>1</sup> Fund inception: 31/12/1997. <sup>2</sup> Fund inception: 04/04/2003.

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.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

## Fund Performance (Gross Unhedged) to 30 September 2022



## Performance Summary

### Market Commentary

The MSCI World Ex Australia Index slightly gained 0.35% in unhedged AUD terms and declined 5.18% in fully hedged to AUD terms in Q3 2022.

The third quarter of the year proved grim for investors. Following a short-lived bear market rally in July, global equities resumed their sell-off in August and September, leaving the MSCI World Index roughly flat at +0.3% over the quarter in Australian dollar terms. The depreciation in the Australian dollar provided some offset to the fall in global share prices, with unhedged equities outperforming their hedged counterparts. Meanwhile, Developed Markets held up better than Emerging Markets amidst heightened volatility. Historically aggressive rate hikes by several central banks around the world saw Fixed Income markets, as represented by the Bloomberg Barclays Global Aggregate Index, close the third quarter down -3.8% for the Australian dollar hedged investor.

In the US, the S&P 500 Index declined by -4.9% over the quarter and by -9.2% in September (in local currency terms), with most sectors falling over the period. The US Federal Reserve (Fed) hiked interest rates twice by 75bps over the quarter and is on its fastest rate hiking cycle since the early 1980s. The Fed also published a new set of interest rate projections in September which predicted the Fed funds rate will rise to 4.6% by the end of 2023, a significant increase from prior views. While US inflation declined slightly for two consecutive months, the August inflation rate of 8.3% was above market consensus of 8.1% and remains elevated. The US labour market also remains tight as weekly jobless claims reached a five-month low in late September.

European equity markets, as represented through the Euro Stoxx 50 Index, decreased by -3.7% in the third quarter and -5.6% in September (in local currency terms). Europe's efforts to wean itself off Russian energy have triggered a price surge, with the European Union now spending nearly 12% of its GDP on energy alone, and annual flash headline inflation within the European block hit an all-time high during the quarter. Following their initial lift-off in July, the European Central Bank (ECB) took a hawkish stance by announcing a record 75bps rate hike in September and hinted at further hikes over the next few months.

The UK equity market declined by -2.7% over the quarter and by -5.2% in September (in local currency terms). UK financial markets were roiled by Chancellor Kwarteng's mini-budget which planned to increase debt borrowing to fund tax cuts and energy support measures, driving significant volatility and dislocation across asset classes. The government's new economic agenda was viewed by many as inflationary and a challenge to the government's fiscal credibility, with markets sharply repricing to reflect expectations of tighter monetary policy. Although the unemployment rate remained subdued at 3.6% in the three months through July, consumer confidence fell to an all-time low in September.

Asian equities broadly sold off over the month and quarter. China's CSI 300 Index fell by -14.3% over the quarter and by -6.7% in September (in local currency terms), as sentiment weakened due to ongoing concerns around the domestic real estate market and lockdown measures implemented as part of China's zero-COVID strategy. In the lead up to the key 20th Communist Party Congress in October, China's large banks trimmed their deposit rates in September. This follows the People's Bank of China (PBoC) lowering its benchmark lending rates earlier in the quarter, amidst concerns of a slowing Chinese economy.

Japanese equities, as represented by the TOPIX Index, fell by -0.8% over the quarter and by -5.5% in September (in local currency terms). For the first time since 1998, the Japanese Ministry of Finance (MoF) intervened in currency markets in September to defend the Japanese yen from further weakness against the US dollar. The Bank of Japan (BOJ) continued to maintain its stance of defending its yield target despite core consumer prices rising 2.8% YoY in August ahead of expectations and above the BOJ's 2% target.

## Strategy Commentary

The strategy underperformed over the quarter. The bulk of losses coming from Fundamental and Macro signals, with Fundamental signals—particularly Value—detracting the most. Sentiment signals were a bright spot for the model despite a muted result towards the end of September.

On the Fundamental side, Value signals lost out particularly over the beginning and end periods of the quarter as gyration in styles continued. On the negative side, value-oriented signals observing book to price ratios also lost out. Another signal observing the ratio of Research and Development spend relative to market price also detracted.

Quality signals detracted overall as well. Despite losses in the beginning of the quarter as the portfolio's defensive stance clashed with a market optimistic about a dovish Fed pivot; before those hopes were dashed and the portfolio's persistent defensive stance paid off. Signals preferring firms with higher levels of operating cash flow in particular finished the quarter as one of the strongest overall contributors for the quarter.

Sentiment signals were the bright spot for the quarter. In particular, an insight that observes prime broker activity to trade alongside informed investors was among the most successful individual signals for the month overall. The suite of signals using machine learning to extract Sentiment from conference calls also added value.

### Top Active Holdings

Overweight	Underweight
BRISTOL MYERS SQUIBB	NVIDIA CORP
CANADIAN NATURAL RESOURCES LTD	NESTLE SA
COCA-COLA	AMAZON COM INC
PEPSICO INC	ROCHE HOLDING PAR AG
MICROSOFT CORP	WALMART INC

### Top Holdings

Holding	Weight %
APPLE INC	5.91
MICROSOFT CORP	4.67
JOHNSON & JOHNSON	1.86
AMAZON COM INC	1.80
JPMORGAN CHASE & CO	1.58
COCA-COLA	1.51
PEPSICO INC	1.50
CHEVRON CORP	1.45
BRISTOL MYERS SQUIBB	1.43
TESLA INC	1.42

### Country Exposure

Country	Weight %
Austria	0.20
Belgium	0.14
Canada	4.48
Denmark	1.25
Finland	0.27
France	2.62
Germany	3.92
Greece	0.00
Hong Kong	0.77
Ireland	0.08
Israel	0.41
Italy	0.42
Japan	5.70
Netherlands	1.30
New Zealand	0.00
Norway	0.67
Portugal	0.01
Singapore	0.13
Spain	0.26
Sweden	0.39
Switzerland	0.90
United Kingdom	2.68
US	73.39

## 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 Advantage International Equity Fund	
APIR Code	BAR0817AU
Buy/Sell Spread	0.17%/0.17%
Fund Size	242 mil
Number of Stocks in Fund	461
Number of Stocks in Benchmark	1457
Tracking Error (3 Years p.a.)	1.46%
Management Fee	0.50% p.a.

BlackRock Advantage Hedged International Equity Fund	
APIR Code	BGL0109AU
Fund Size	69 mil
Buy/Sell Spread	0.18%/0.18%
Management Fee	0.53% p.a.

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