

# BLACKROCK ADVANTAGE INTERNATIONAL EQUITY FUND

# BLACKROCK®

FUND UPDATE

28 February 2022

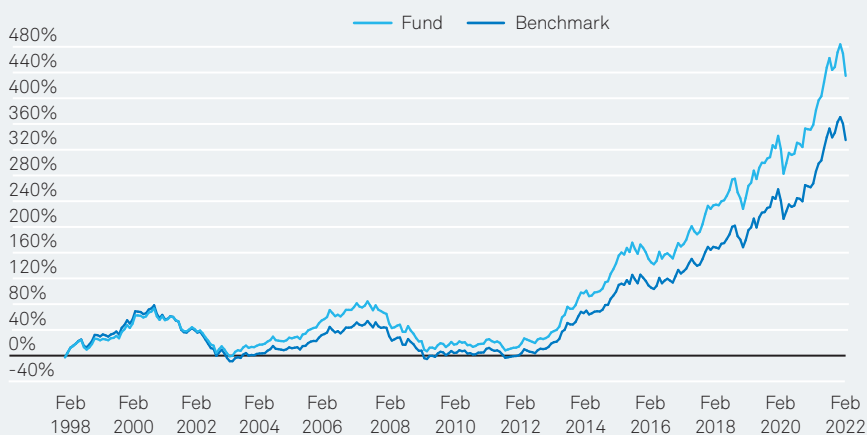
## Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
BlackRock Scientific International Alpha Tilts Fund <sup>1</sup> (Gross of Fees)	-6.12	-6.38	-8.39	16.55	13.64	14.32	8.62
MSCI World ex Australia Index (unhedged in AUD)	-5.52	-6.05	-7.60	18.33	13.82	13.49	8.16
Outperformance (Gross of Fees)	-0.60	-0.34	-0.79	-1.78	-0.18	0.83	0.46
BlackRock Advantage International Equity Fund <sup>2</sup> (Net of Fees)	-6.16	-6.51	-8.48	16.00	13.08	13.59	6.32
MSCI World ex Australia Index (unhedged in AUD)	-5.52	-6.05	-7.60	18.33	13.82	13.49	6.27
Outperformance (Net of Fees)	-0.64	-0.46	-0.88	-2.34	-0.74	0.10	0.04
BlackRock Scientific Hedged International Alpha Tilts Fund <sup>3</sup> (Gross of Fees)	-3.36	-4.35	-8.44	10.67	12.81	11.90	9.64
MSCI World ex Australia Index (hedged in AUD)	-2.75	-4.01	-7.68	12.34	13.13	11.20	9.43
Outperformance (Gross of Fees)	-0.61	-0.34	-0.77	-1.67	-0.32	0.70	0.20
BlackRock Advantage Hedged International Equity Fund <sup>4</sup> (Net of Fees)	-3.40	-4.48	-8.53	10.10	12.21	11.13	10.15
MSCI World ex Australia Index (hedged in AUD)	-2.75	-4.01	-7.68	12.34	13.13	11.20	10.68
Outperformance (Net of Fees)	-0.65	-0.47	-0.85	-2.24	-0.92	-0.07	-0.53

<sup>1</sup> Fund inception: 15/04/2004. <sup>2</sup> Fund inception: 31/12/1997. <sup>3</sup> Fund inception: 15/04/2004. <sup>4</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.

## Fund Performance (Gross Unhedged) to 28 February 2022



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- Market Insights & Commentary
- Fund Performance
- Unit Prices

## Performance Summary

### Market Commentary

The MSCI World Ex Australia Index declined 5.52% in unhedged AUD terms and 2.75% in fully hedged to AUD terms in February 2022.

In February, investors were jolted by Russia's invasion of Ukraine. Markets, which were already tested by the pandemic, rising inflation, and a global wave of central bank tightening, were further injected with new uncertainty. The United States and its European counterparts imposed a broad range of sanctions on Russia, the most severe of which banning transactions with the Russian central bank in an effort to restrict Russia from deploying foreign reserves. Further restrictions were placed on major Russian financial institutions with the US also removing Russia from the Swift International Payment System. Despite positive Q4 2021 earnings reports across developed economies, ongoing inflation concerns and central bank tightening remained a primary concern early in the month before investors grappled with rallying energy and materials prices after the commencement of Russia's invasion.

Most global sharemarkets finished the month in the red (in local currency terms). Developed market equities and emerging market counterparts (to a greater degree) declined steeply in a classic risk off move over the period. Developed market government bond indices were volatile, with initial strong upside pressure on European bond short-end yields subsiding towards month-end. Most global bond indices finished in the red with long-term yields headed higher as investors demanded more compensation for holding them amid the higher inflationary backdrop.

US equities represented by the S&P500 Index declined 3% in February (in local currency terms), in line with broader market selloffs as investor's adopted a strict 'risk off' stance given the ongoing invasion of Ukraine by Russia. Despite strong fourth-quarter earnings and higher than expected earnings growth, Energy was the only sector to make gains over the period with Technology and Communications detracting sharply.

With the current geopolitical uncertainty and imposing of severe sanctions on Russia, the US Federal Reserve (Fed) along with other central banks have found it hard to navigate near-term monetary policy and interest rate hikes. However, Chair Jerome Powell reiterated expectations that a rapidly healing US economy which had printed a composite Markit PMI of 55.9 in February no longer needed an overly accommodative monetary policy. With inflation accelerating to 7.5% in January and showing no signs of abating, Powell all but confirmed a 25 basis point rate rise in March. While the magnitude remains smaller than initially priced in by markets at the start of the month, it nonetheless foreshadows the dawn of an extended hiking cycle, with markets continuing to reflect six rate hikes in 2022 amidst a tight labour market and strong wages growth.

European equity markets represented through the Euro Stoxx 600 Index declined 5.9% in February (in local currency terms), underperforming most other developed markets. Given Europe's reliance on Russian gas, ongoing concerns about energy-driven inflation were exasperated by the conflict within Ukraine. The consumer discretionary and financial sectors underperformed as a result of reduced consumer purchasing power.

Within the European block, January's headline inflation reached 5.1% year-on-year (highest level on record), with more than 50% of the headline number coming directly from energy inflation. An acceleration of economic momentum on the back of easing COVID-19 restrictions was reflected in a rise in the Markit PMI to 55.8, driven largely by a recovering services sector. Despite the unemployment rate falling to 7% and wage growth expected to pick up, the European Central Bank (ECB) tabled discussions for a potential rate rise at its February meeting given the Ukraine crisis, suggesting a more measured approach to be taken given the ongoing uncertainty in the region.

The UK equity market as measured by the FTSE Index gained 1.4% over the month, significantly outperforming most other developed markets due to its relatively higher exposure to energy and materials sectors. The Bank of England (BOE) raised interest rates to 0.5% in February. The UK has also seen a strong growth in private sector activity with the UK Composite PMI jumping to 60.2 in February. However, the BOE has warned that surging energy bills and tighter labour markets would push inflation higher than expected in the coming months, which has already edged up to 5.5% in January.

Asian equities declined in February, in line with their global peers. Chinese equities were relatively flat over the period, although renewed concerns about China's crackdown on private enterprises dampened investor sentiment further as the technology sector continues to be hard hit by regulatory pressures. Given China's slowdown in earnings growth, consensus holds that the People's Bank of China (PoBC) will continue to lower borrowing costs and increase credit supply to spur business activity throughout the year.

Japanese equities continued to detract in February and declined 1.7% over the month (in local currency terms). Japan's bank lending rose at 0.4% in February, the slowest increase in a decade, as immediate pressure for corporates to borrow cash eased and borrowers continued to pay back loans extended during the pandemic. The Bank of Japan (BOJ) continues to monitor developments in Ukraine given their impacts on rising crude oil prices and corporate funding within Japan.

## Strategy Commentary

The international stock selection strategy underperformed the benchmark over February. Sentiment, Cross Border Thematics and Quality, particularly sustainability insights, all detracted. Net overweights in North American and Europe, along with a net underweight in Asia, were negative. North American Information Technology and Industrials saw the biggest detractions, with a similar picture in Europe, though at a smaller scale. Poor Sentiment also led to underperformance in the Health Care sector, though positioning in North America (overweight) and Europe (underweight) was contrary. An overweight in the Energy sector and an underweight for Consumer Discretionary saw both of those sectors add modestly.

Positive contributors to performance included an underweight position in Meta Platforms and an overweight position in Equinor.

**Meta Platforms** – Formerly known as Facebook, the global social media firm missed earnings per share last quarter and reported its first fall in daily active users, quarter on quarter. Poor insights from Momentum, Sentiment and Quality insights led to an underweight position.

**Equinor** – Norwegian energy company Equinor announced record profits, as oil and gas prices climbed, allowing them to return capital in the form of a regular and special dividend, as well as through a share buyback. Positive Cross Border Thematics, and Company Fundamentals (Valuation and Quality) led to the overweight.

Detractors from performance included overweight positions in Ericsson and Fidelity National Information Services.

**Ericsson** – Swedish information and communication technology firm Ericsson fell after media speculation as to potential breaches of the firm's Code of Business Ethics in dealings in Iraq in 2019. Cross Border Thematics, Momentum and Valuation insights contributed to the overweight position.

**Fidelity National Information Services** – American technology solutions provider for financials Fidelity National Information Services announced quarterly earnings in February, and though beat Q4 guidance, guidance for Q1 was relatively weak. Favourable Momentum and Sentiment insights underpinned the overweight position.

### Top Active Holdings

Overweight	Underweight
MICROSOFT CORP	UNITEDHEALTH GROUP INC
JOHNSON & JOHNSON	PROCTER & GAMBLE
WALMART INC	NESTLE SA
MEDTRONIC PLC	META PLATFORMS INC CLASS A
COMCAST CORP CLASS A	MASTERCARD INC CLASS A

### Top Holdings

Holding	Weight %
MICROSOFT CORP	4.74
APPLE INC	4.62
AMAZON COM INC	2.17
ALPHABET INC CLASS C	1.80
JOHNSON & JOHNSON	1.72
VISA INC CLASS A	1.54
BANK OF AMERICA CORP	1.46
WALMART INC	1.32
COMCAST CORP CLASS A	1.29
ASML HOLDING NV	1.22

### Country Exposure

Country	Weight %
Austria	0.19
Belgium	0.07
Canada	5.41
Denmark	0.24
Finland	1.23
France	2.87
Germany	3.19
Greece	0.00
Hong Kong	0.61
Ireland	0.11
Israel	0.58
Italy	0.17
Japan	4.88
Netherlands	2.48
New Zealand	0.02
Norway	0.94
Portugal	0.15
Singapore	0.19
Spain	0.87
Sweden	1.14
Switzerland	1.30
United Kingdom	2.84
US	70.52

## 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	122 mil
Buy/Sell Spread	0.17%/0.17%
Number of Stocks in Fund	508
Number of Stocks in Benchmark	1486
Tracking Error (3 Years p.a.)	1.53%

BlackRock Scientific Hedged International Alpha Tilts Fund	
APIR	BGL0046AU
Buy/Sell Spread	0.18%/0.18%
Fund Size	234 mil

BlackRock Advantage International Equity Fund	
APIR Code	BAR0817AU
Buy/Sell Spread	0.17%/0.17%
Fund Size	624 mil
Management Fee	0.50% p.a.

BlackRock Advantage Hedged International Equity Fund	
APIR Code	BGL0109AU
Fund Size	326 mil
Buy/Sell Spread	0.18%/0.18%
Management Fee	0.53% p.a.

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