BLACKROCK HIGH CONVICTION AUSTRALIAN EQUITY FUND

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FUND UPDATE **31 January 2024**

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Investment Performance (%)

	1 Mth	3 Mths	Since Manger Incep[3]	YTD	1 Yr	2 Yrs pa	3 Yrs pa	5 Yrs pa	Since Incep[1] pa
Class D (Net of Fees)	**1.32**	**13.04**	**12.21**	**1.32**	**3.55**	**-5.86**	**-4.59**	**3.06**	**4.53**
Benchmark[2]	1.10	13.89	11.98	1.10	9.81	5.16	6.04	7.78	7.63
Outperformance (Net of Fees)	0.22	-0.85	0.23	0.22	-6.26	-11.02	-10.63	-4.72	-3.10
S&P/ASX 300 (for comparative purposes)	1.10	13.89	11.98	1.10	6.66	9.11	9.27	9.67	9.46

[1] Unadjusted class D performance since inception date of 4th January 2016

[2] The Fund benchmark from inception to 9 March 2023 was the S&P/ASX300 Industrials Accumulation Ex Top 5 Stocks by Mkt Cap Gross Index. From 9 March 2023 the Fund benchmark was S&P/ASX300 Accumulation Index

[3] With an inception of 29th March 2023, Pendal Group took over management of this strategy on a sub-advisory basis

Please see ^^ in the footnotes of further information.

Performance Summary – January 2024

January Market Review

The prevailing view of a Goldilocks scenario where inflation is brought under control without the economy tipping into recession continues to drive equity markets higher.

A series of data points suggested US inflation is being successfully reined in, opening the door to rate cuts in the first half of 2024. This helped the S&P 500 gain 1.6% for the month, reaching all-time highs despite ratcheting geopolitical tensions in the Red Sea.

The S&P/ASX 300 was a little more muted, but still gained 1.10%. Concerns over the outlook for China weighed more on the Australian market, dragging down the mining sector as the iron ore price dropped 6.7%. Beijing continues with piecemeal stimulus to put a floor under growth, but the property sector remains moribund and consumer confidence appears low.

That said, better-than-expected Australian CPI data late in the month raised hopes that domestic rates had peaked and that the RBA would look to ease later in the year.

Energy (+5.16%) did best, helped by a 6.1% gain in Brent crude oil which saw both Woodside Energy (WDS) and Santos (STO) outperform. Some excitement around uranium saw Paladin Energy (PDN) gain 31.47%.

Financials (+4.95%) also outperformed. The four major banks all made good gains, book-ended by National Australia Bank (NAB, +6.19%) and ANZ (ANZ, +4.94%), possibly helped by some optimism for the economic outlook if rates have hit their peak.

Materials (-4.98%) sank along with the iron ore price on concerns over the economic outlook for China. BHP (BHP, -6.23%) and Rio Tinto (RIO, -2.02%) both underperformed, while the gold miners were also weak and the lithium sector remains under pressure.

The small Utilities (-1.50%) sector was also lacklustre, due largely to a -8.54% fall in AGL Energy.

Fund Performance

The portfolio (+1.32%) outperformed the index (+1.10%) by +0.22% in January. There was a good mix of performance drivers – in addition to QBE Insurance (QBE) and CSL (CSL), overweights in Santos (STO), Qantas (QAN) and Aristocrat Leisure (ALL) also made positive contributions. The exposure to gold miner Evolution (EVN) detracted, as did owning BHP (BHP).

Contributors

Overweight QBE Insurance (QBE, +7.02%)

QBE has benefited from the read-across from well-received updates from insurance companies in the US, which suggest that the supportive environment from premiums and claims inflation remains intact. We continue to see benefit from QBE divesting or running down its more challenged lines of business, which we believe can result in a higher quality company and an improved valuation rating.

Overweight CSL (CSL, +5.25%)

CSL de-rated in 2023 on concern over margins and the potential impact of GLP-1 drugs on part of its target market. However it has staged a strong rebound since October, helped by a tailwind for growth stocks at the prospect of rate cuts and lower bond yields, as well as by some doubts raised around competitor products. We retain conviction in the company's ability to restore margins to pre-Covid levels, while its product pipeline offers further potential upside.

Underweight Newmont Corporation (NEM, -13.20%)

US gold miner Newmont is now dual-listed on the ASX following its acquisition of Newcrest Mining and is the largest gold miner by market cap on the ASX. The US dollar strengthened over January, which weighed on the gold price and saw the gold miners underperform. The Fund does not own Newmont.

Detractors

Overweight Evolution Mining (EVN, -18.94%)

The gold price softened over the month, dragging on the gold miners. For EVN, this was exacerbated by a quarterly production report where it downgraded guidance for its Red Lake mine, Management maintained group-level production guidance, but the market expressed some scepticism. On the positive side, mine cash flow improved and that trend should continue this year, in our view, which will aid deleveraging efforts.

Overweight BHP (BHP, -6.23%)

BHP's quarterly production report was largely in-line with expectations in term of iron ore, but management had to cut guidance for metallurgical coal. Net debt came in larger than expected. The iron ore price fell 6.7% over the month – after holding up relatively well in 2023 – as the market become increasingly concerned over the outlook for China's economy. Beijing continues to ease conditions at the margin, but activity and confidence in the property sector both remain muted.

Underweight ANZ (ANZ, +4.94%)

Banks outperformed in January, possibly helped by the view that slowing inflation opens the door to rate cuts and reduces the risk of recession. The Fund does not hold ANZ and has a modest underweight in the Big Four banks in aggregate. However an overweight in National Australia Bank (NAB, +6.19%), the best performing of the Big Four in January, saw the net effect of bank position close to neutral for the month.

Outlook

The market is currently being supported by the prevailing view that inflation is slowing fast enough (in both the US and Australia) to support rate cuts later in the year.

In the US the question is whether lagged monetary policy will result in recession – dragging on earnings estimates and the market – or whether easing financial conditions, rising real wages and fiscal support drives continued growth. At this point the data suggest an economy remaining in good shape, though real-time "pulse" signals suggest a slow-down, which needs to be watched.

In Australia, we are watching to see whether previous rate hikes start to squeeze the economy enough to lower inflation and allow cuts, or if current growth momentum forces the RBA to hike further and run the risk of a more rapid slowdown. The most recent data supports the view that the economy is cooling and that rates have peaked.

In China there have been some positive surprises on the policy front in the last couple of weeks, but the economy remains challenged, which remains an issue for Australian resources.

More broadly, heading into February's reporting season, consensus expects aggregate index earnings to fall low single-digits in FY24. This is driven by falls in bank and resource earnings. Earnings in Industrials are expected to be positive, providing some offset. At this point, the market seems prepared to look through this earnings valley, helped by the potential for lower rates to support market valuations.

In the near term the Red Sea conflict presents a risk given it may have knock-on effects for inflation (via freight disruption and the oil price). These are not evident at the moment, but any escalation needs to be watched.

We are also mindful that market positioning is very positive given the current Goldilocks scenario. This does not mean that the market can't continue to rise if the current environment endures – there is still plenty of cash on the sidelines. But it does leave the market more vulnerable if there is a shift in the currently benign outlook.

Top 10 Holdings Alphabetically
Stock
BHP GROUP LTD
COMMONWEALTH BANK OF AUSTRALIA
CSL LTD
NATIONAL AUSTRALIA BANK LTD
QANTAS AIRWAYS LTD
QBE INSURANCE GROUP LTD
SANTOS LTD
TELSTRA GROUP LTD
WESTPAC BANKING CORPORATION CORP
XERO LTD

Source: BlackRock

Sector Exposure

Sector	Weight %
Financials	24.43%
Materials	23.81%
Health Care	12.21%
Communication Services	8.53%
Energy	7.78%
Information Technology	6.22%
Industrials	5.33%
Real Estate	5.29%
Consumer Discretionary	2.47%
Consumer Staples	2.35%
Utilities	-

Source: BlackRock

About the Fund

This strategy is sub-advised by Pendal Group. The strategy is operationally managed by BlackRock and aims to replicate the Pendal Focus Australian Share Fund as closely as possible.

Investment Objective

The Fund aims to provide a return (before fees, costs and taxes), that significantly exceeds the S&P/ASX300 (TR) Index over the medium to long term.

Description of Fund

This Fund is designed for investors who want the potential for long term capital growth and tax effective income from a concentrated portfolio of primarily 15-30 Australian shares and are prepared to accept higher variability of returns. The Fund may also hold cash and may use derivatives.

Pendal's investment process for Australian shares is based on our core investment style and aims to add value through active stock selection and fundamental company research. Pendal's core investment style is to select stocks based on our assessment of their long term worth and ability to outperform the market, without being restricted by a growth or value bias. Our fundamental company research focuses on valuation, franchise, management quality and risk factors (both financial and non-financial risk).

Derivatives may be used to reduce risk and can act as a hedge against adverse movements in a particular market and/or in the underlying assets. Derivatives can also be used to gain exposure to assets and markets.

Fund Positioning

The Fund is designed to complement a conventional, core share portfolio by providing satellite exposure to selected Australian equities with the potential for performance enhancement.

Investment Team

Pendal's nineteen member Equity team is one of the largest in the Australian fund's management industry. The portfolio manager for the Fund is Crispin Murray, who has more than 31 years' industry experience. Crispin is also Head of Equity.

Fund Details

BlackRock High Conviction Australian Equity Fund	
APIR Code (D Class)	BLK0012AU
Fund Size/strategy Size	$16m/$185m
Buy/Sell Spread	0.25%/0.25%
Liquidity	Daily

Investment Guidelines	
Ex-ante tracking error	3.0% - 6.0%
Max absolute stock position	15%
Min/Max sector position relative to Index	+/- 15%
Min/Max BARRA style factors	+/- 0.5 SD
SIRA style factors	Within 1 SD
Maximum cash level	30%
Shorting	No
Borrowing	No

^^ 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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