

# BLACKROCK WHOLESALE AUSTRALIAN SHARE FUND

BLACKROCK®

FUND UPDATE

31 March 2023

## Investment Performance (%)

|  | 1 Mth | 3 Mths | YTD  | 1 Yr  | 3 Yrs | 5 Yrs | Since Incep |
|--|-------|--------|------|-------|-------|-------|-------------|
| BlackRock Wholesale Australian Share Fund* (Net of Fees) | -0.10 | 3.60   | 3.60 | -1.64 | 14.40 | 7.53  | 8.36        |
| S&P/ASX 300 Accumulation Index                           | -0.24 | 3.33   | 3.33 | -0.57 | 16.59 | 8.64  | 8.52        |
| Outperformance (Net of Fees)                             | 0.14  | 0.26   | 0.26 | -1.07 | -2.19 | -1.11 | -0.16       |

\* The actual inception of the Fund is 31 December 1993, however the Fund changed from a Fundamental Strategy to a Scientific (quantitative)

Strategy on 14 June 2012. Please note that performance information displayed on BlackRock website from the date of the Fund's actual inception up to and including 14 June 2012 has been calculated for the fundamental strategy, whilst performance on and after 14 June 2012 has been calculated for the scientific strategy.

Past performance is not a reliable indicator of future performance. Gross returns are calculated before fees and taxes and assume reinvestment of distributions. 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.

## Performance Summary – March 2023

### Fund v Market

The S&P/ASX200 Accumulation Index registered another positive quarter to start 2022 (+3.5%). A strong start to the year gave way to a weaker earnings season in February, with concerns of a potential recession, followed by a flat March where global banking concerns resulted in Australian banks finishing lower for the month.

Inflation ended 2022 peaking at +7.8% for the year, travel (domestic and international) and electricity contributing, though the February monthly indicator showed the rate of inflation had slowed. The wage price index rose over the year (+3.3%), which was the highest gain in over 10 years but was also significantly below inflation. GDP over 2022 was positive at +2.7%, with some slowing in the rate over the last three quarters. Services exports and consumption contributed, though household spending moderated. The latest unemployment data showed the rate had fallen to 3.5%, while the participation rate and hours worked both increased. The Australian dollar rose at the start of the year, then gave it all back as the US dollar strengthened, finishing the quarter at US67.1c.

The Consumer Discretionary sector (+11.3%) led all sectors, helped by retailers and services. Communications (+9.4%) and Consumer Staples (+7.6%) also performed well. Gains in the Materials sector (+7.7%) were driven by the mining sector where gold and steel companies did best. Software names in Information Technology (+7.7%) helped that sector outperform. Weakness in the banks, particularly during March, resulted in negative performance from Financials (-2.7%), with Energy (-1.0%) also detracting.

The strategy started 2023 well, posting positive alpha each of the three months in the first quarter. Sector performance was led by shorts across the Real Estate sector, and longs in the Consumer Discretionary sector. Favourable positioning in the Information Technology sector (long software, short services) added moderately. The Materials (mining) sector was the main sector to detract, through shorts in a couple of takeover targets. Earnings Quality insights added the most, with some contribution from Market insights. The other three insight groups detracted modestly.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

## Investment Insights

The stock positions in the portfolio are based on combinations of our signals, which exhibited the following performance characteristics over the quarter:

- ▶ Relative Valuation signals were negative,
- ▶ Market signals were positive,
- ▶ Earnings Direction signals were negative,
- ▶ Earnings Quality signals were positive,
- ▶ Timing signals were negative.

## Stock Selection

On a market adjusted basis, amongst the top contributors for the quarter were long positions in Cochlear (COH) and Eagers Automotive (APE). Amongst the largest detractors were short positions in Newcrest Mining (NCM) and Liontown Resources (LTR).

## Top Contributors

**COH** – The long position in medical device company Cochlear was a result of favourable views across all insights groups, apart from Relative Valuation. The company delivered strong top line growth, though profits were impacted by increases in R&D investment, market growth activities, and new product launch costs. Management reaffirmed guidance as trading conditions improve and commenced an on-market share buy-back program.

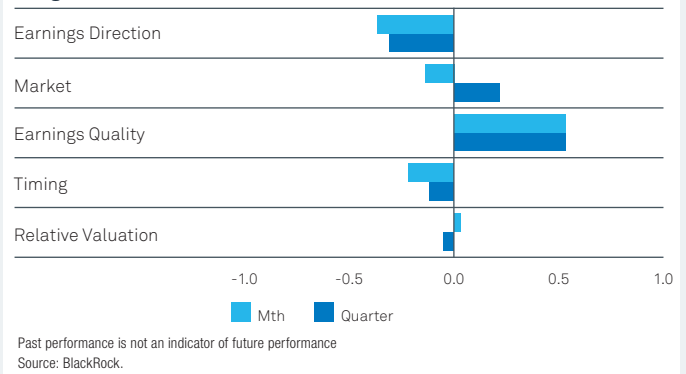
**APE** – The long position in car dealer Eagers Automotive was driven by favourable Relative Valuation and Timing insights. The company posted record underlying profits, and correspondingly paid a record dividend, as demand for cars continued to be strong.

## Top Detractors

**NCM** – The short position in gold miner Newcrest Mining was due unfavourable Earnings Direction, Earnings Quality, and Timing insights. The company announced solid results (increased production, reduced costs), paid a special dividend, and remained on-track to deliver FY23 guidance. They also rejected a takeover offer from a large competitor, though provided them some access for on-going diligence.

**LTR** – The short position in lithium miner Liontown Resources came about through poor views from Market and Earnings Quality insights. The firm rejected a takeover bid from another lithium miner noting the bid was opportunistic given some softness in the lithium sector, and the pre-production status of a key lithium asset.

### Insight Performance (%)



### Sector Exposure (Long/Short Strategy)

| Sector                 | Active Weight % |
|------------------------|-----------------|
| Communication Services | -5.26           |
| Consumer Discretionary | 1.84            |
| Consumer Staples       | -2.61           |
| Energy                 | 0.20            |
| Financials             | 0.99            |
| Health Care            | 4.96            |
| Industrials            | -2.85           |
| Information Technology | 3.33            |
| Materials              | 0.25            |
| Real Estate            | -0.20           |
| Utilities              | 1.03            |

### Contributors/Detractors (Long/Short Strategy)

| Contributors                   | Detractors             |
|--------------------------------|------------------------|
| SLATER & GORDON LTD            | UNITED MALT GROUP LTD  |
| EAGERS AUTOMOTIVE LTD          | NEWCREST MINING LTD    |
| FLIGHT CENTRE TRAVEL GROUP LTD | REA GROUP LTD          |
| ARISTOCRAT LEISURE LTD         | LIONTOWN RESOURCES LTD |
| SEEK LTD                       | REECE LTD              |

### Top Active Holdings (Long/Short Strategy)

| Long                             | Short                          |
|----------------------------------|--------------------------------|
| COLES GROUP LTD                  | UNITED MALT GROUP LTD          |
| TECHNOLOGY ONE LTD               | COMMONWEALTH BANK OF AUSTRALIA |
| WESTPAC BANKING CORPORATION CORP | CSL LTD                        |
| NATIONAL AUSTRALIA BANK LTD      | AURIZON HOLDINGS LTD           |
| BRAMBLES LTD                     | ARB CORPORATION LTD            |

## About the Fund

### Investment Objective

The Fund has two aims: to achieve capital growth over the long-term through investment in Australian shares and other securities and to provide investors with some tax-effective income through the distribution of franking credits. Overall, we aim to achieve this goal by outperforming the S&P/ASX 300 Accumulation Index ("Benchmark") over rolling five year periods.

### Fund Strategy

The Fund, through its underlying investments, employs a "long/short" investment strategy. Unlike "long only" investments, which have just one source of return; that is buying stocks that are expected to rise in value, long/short strategies have two sources of prospective return. A fund that employs a long/short investment strategy can generate returns by owning stocks that the manager expects will rise in value (long). At the same time the fund can, sell (short) stocks that are expected to decrease in value.

In implementing the underlying index strategy BlackRock takes a full replication approach which means that wherever practical, we seek to hold every stock in the S&P/ASX 300 Accumulation Index, but will trade in less liquid stocks over time to minimize transaction costs.

To further counteract the impact of transaction costs we employ low-risk enhancement techniques in an attempt to add value and replicate more closely the return of the S&P/ASX 300 Accumulation Index. These low risk portfolio enhancement activities include the use of

- ▶ dividend reinvestment plans;
- ▶ futures to efficiently reinvest dividend distributions; and
- ▶ trading strategies to manage changes to the S&P/ASX 300

## Should be considered by investors who ...

- ▶ Seek to gain competitive returns
- ▶ Require a Fund that applies rigor in its underlying investment philosophy and style
- ▶ Prefer a Fund with a proven track record in long-short investing
- ▶ Have a long term investment horizon.

### Fund Details

| BlackRock Wholesale Australian Share Fund |               |
|---|---------------|
| APIR                                      | PWA0823AU     |
| Fund Size                                 | 36 mil        |
| Buy/Sell Spread                           | 0.275%/0.275% |
| Management Fee                            | 0.95% p.a.    |

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