



Product Review

BlackRock Advantage Australian Equity Fund

ISSUE DATE 25-09-2023

About this Review

| | |
|----------------------|----------------------|
| ASSET CLASS REVIEWED | AUSTRALIAN EQUITIES |
| SECTOR REVIEWED | AUSTRALIAN LARGE CAP |
| SUB SECTOR REVIEWED | CORE / STYLE NEUTRAL |
| TOTAL FUNDS RATED | 46 |

About this Fund

| | |
|-----------------------------|---|
| ASIC RG240 CLASSIFIED | NO |
| FUND REVIEWED | BLACKROCK ADVANTAGE AUSTRALIAN EQUITY FUND |
| APIR CODE | BAR0814AU |
| PDS OBJECTIVE | TO OUTPERFORM THE S&P/ASX 300 ACCUMULATION INDEX BY 2.2% P.A., AFTER FEES, OVER ROLLING THREE-YEAR PERIODS, WHILE MAINTAINING A SIMILAR LEVEL OF INVESTMENT RISK TO THE BENCHMARK |
| INTERNAL OBJECTIVE | SAME AS PDS |
| STATED RISK OBJECTIVE | TRACKING ERROR OF 2% P.A. |
| DISTRIBUTION FREQUENCY | QUARTERLY |
| FUND SIZE | \$110.1M (JULY 2023) |
| FUND INCEPTION | 31-12-1996 |
| ANNUAL FEES AND COSTS (PDS) | 0.46% P.A. |
| RESPONSIBLE ENTITY | BLACKROCK INVESTMENT MANAGEMENT (AUSTRALIA) LIMITED |

About the Fund Manager

| | |
|---------------------------------|---|
| FUND MANAGER | BLACKROCK INVESTMENT MANAGEMENT (AUSTRALIA) LIMITED |
| OWNERSHIP | BLACKROCK INC (NYSE-LISTED) |
| ASSETS MANAGED IN THIS SECTOR | \$8.7BN (AUG. 2023) |
| YEARS MANAGING THIS ASSET CLASS | 34 |

Investment Team

| | |
|--------------------------|-------------------------------|
| PORTFOLIO MANAGER | DR MICHAEL MCCORRY & RYAN KIM |
| INVESTMENT TEAM SIZE | 97 |
| INVESTMENT TEAM TURNOVER | LOW |
| STRUCTURE / LOCATION | MULTIPLE LOCATIONS |

Investment process

| | |
|-------------------------------|--------------------------------|
| STYLE | STYLE NEUTRAL |
| BENCHMARK | S&P/ASX 300 ACCUMULATION INDEX |
| TYPICAL STOCK NUMBERS | 90 -150 |
| TYPICAL CAPITALISATION BIAS | CLOSE TO INDEX |
| STOCK ACTIVE POSITION LIMITS | INDEX +/-1.25% (SOFT) |
| SECTOR ACTIVE POSITION LIMITS | INDEX +/-2.0% (HARD) |

Fund rating history

| | |
|----------------|-------------|
| SEPTEMBER 2023 | RECOMMENDED |
| SEPTEMBER 2022 | RECOMMENDED |
| SEPTEMBER 2021 | RECOMMENDED |

What this Rating means

The 'Recommended' rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

Strengths

- BlackRock has an extensive history and track record in managing a wide array of quantitative strategies.
- The firm has significant resourcing and commitment to researching and developing proprietary trading signals. The Fund also has the support of the broader BlackRock network and resources.
- The overall investment process is robust and well-established.
- The Fund is attractively priced relative to peers and the broader Australian equity universe.

Weaknesses

- Portfolio managers are able to exercise a degree of discretion over weights of signal groups, stocks and levels of active risk, which introduces a minor level of key person risk.
- The Fund has not been able to achieve its high performance objective on a consistent basis over the long-term and since inception.

Fund Risk Characteristics

| | LOW | MODERATE | HIGH |
|------------------------------|-----|----------|------|
| BUSINESS SUSTAINABILITY RISK | ● | | |
| CAPITAL VOLATILITY | | | ● |
| SECURITY CONCENTRATION RISK | | ● | |
| SECURITY LIQUIDITY RISK | | ● | |

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

BIometrics

Aggregated risks

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|------------------|---|---|---|---|---|---|---|
| STD RISK MEASURE | | | | | | ● | |

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

| | LOW | MODERATE | HIGH |
|----------------|-----|----------|------|
| RISK TO INCOME | | ● | |

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Features and benefits

| | LOW | MODERATE | HIGH |
|------------|-----|----------|------|
| COMPLEXITY | | ● | |
| ESG | | | ● |

Fee profile

| | LOW | MODERATE | HIGH |
|----------------------|-----|----------|------|
| FEES VS. UNIVERSE | ● | | |
| FEES VS. ASSET CLASS | ● | | |
| FEES VS. SUB-SECTOR | ● | | |

Fee BIOMetrics are a function of expected total fee as a percentage of expected total return.

What is this Fund?

- The BlackRock Advantage Australian Equity Fund ('the Fund') is an active, 'long only' Australian equity product that utilises a quantitative investment approach. The Fund seeks to systematically exploit market inefficiencies that have been validated by research, ensuring that risks are adequately compensated and that transaction costs are appropriately forecasted in portfolio construction. The Fund aims to outperform the S&P/ASX 300 Accumulation Index ('the Benchmark') by 2.2% p.a., after fees, over rolling three-year periods. Furthermore, the Fund adopts a relatively 'benchmark aware' approach and Tracking Error is expected to be low at circa 2% p.a.
- BlackRock ('the Manager') adopts a systematic approach, where rather than aiming to pick individual stocks or forecast industry returns, the research approach is focused on understanding how the market processes new information and sets prices for different types of companies. The Manager's investment style can best be described as 'style neutral' and the Fund will tend to display small active positions from a stock and sector perspective, relative to the Benchmark.
- The Manager utilises an alpha model to identify stocks for inclusion in the Fund. The investment insights that drive the process to identify relative mispricing in securities can broadly be broken into five categories – earnings direction, relative valuation, earnings quality, market signals and timing signals.
- The Fund is relatively diversified and will hold approximately 90-150 stocks. The Fund adopts a 'benchmark aware' approach to portfolio construction with tight risk limits established for both active stock and sector weights. Specifically, active positions for individual stocks are permitted at +/-1.25% relative to the Benchmark and +/-2% for sectors. The Fund displays moderately high levels of turnover at 80-120% p.a. and will be fully invested throughout the market cycle.
- The Fund's PDS dated 4 August 2023 disclosed Annual Fees and Costs ('AFC') totalling 0.46% p.a. This comprises (1) Management Fees and Costs of 0.45% p.a., and (2) Net Transaction Costs of 0.01% p.a. In line with RG97, some fees and costs have been estimated by the issuer on a reasonable basis. Actual fees and costs may vary from these estimates, particularly with respect to net transaction costs.
- The Fund charges buy/sell spreads set at 0.15%/0.15%. These spreads can be subject to change, most notably during periods of market volatility, and

can be sourced from the Manager's website during such times.

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- Lonsec notes that the Manager has produced a Target Market Determination (TMD) which forms part of its design and distribution arrangements for the Fund. Lonsec has sighted the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- The Fund is a 'long' only Australian equity product that is subject to equity market risks and movements, both positive and negative, in the prices of the underlying securities in the portfolio. Potential investors should therefore be aware of, and comfortable with, the potential for the Fund to experience periods of negative absolute returns which may result in capital losses being incurred on their investment. Lonsec recommends that equity investments are suitable for investors with an investment time horizon of at least five years.
- The Fund will be predominantly fully invested in the Australian equity market. As such the Fund will generally sit within the growth component of a diversified investment portfolio. As a 'style neutral' product, Lonsec considers it suitable for blending with other Australian Equity strategies including style-biased funds, small-cap, long/short, or absolute return products.

Suggested Lonsec risk profile suitability

| SECURE | DEFENSIVE | CONSERVATIVE | BALANCED | GROWTH | HIGH GROWTH |
|--------|-----------|--------------|----------|--------|-------------|
| | ● | ● | ● | ● | ● |

For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- While it is the normal course of business for this type of strategy to introduce enhancements to the quantitative models, there have been no major enhancements to the models since Lonsec's previous review.
- There have been no material changes to the investment team.

Lonsec Opinion of this Fund

People and resources

- The Fund is managed by the BlackRock Systematic Active Equity team ('SAE'), which Lonsec considers to be well-resourced and well-qualified, with most of its members having strong market experience and solid backgrounds in academia, with PhD qualifications in finance, economics and/or science. Across the SAE team, there are 37 Researchers, 44 Portfolio Managers and 20 Strategists.
- Dr Michael McCorry is the Chief Investment Officer, Australia ('CIO') and is jointly responsible for both the management of the investment team and the

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performance of the investment process with Portfolio Manager, Ryan Kim. Lonsec considers Dr McCorry to be an experienced quantitative investor having held his current role since 2009 and having held similar positions at BGI, both locally and globally, before joining the Manager. Lonsec similarly considers Kim to be an experienced and astute quantitative investor, having developed a noteworthy tenure managing quantitative strategies at BlackRock and having started his career as a portfolio manager at BGI.

- Functional responsibilities for the Fund are dispersed among multiple BlackRock SAE team members. Importantly, the governance of the Fund's model is largely stable with Ryan Kim, Dr Jeff Shen (Co-CIO of SAE) and Dr McCorry remaining core committee members. Lonsec notes that McCorry and Kim have both been key investment staff involved with the Fund for several years.
- Lonsec believes that structural changes implemented at BlackRock, which involve greater centralisation of platforms and functional business units, have the potential to improve efficiency and communication within SAE. That said, Lonsec also believes that there may be a risk that the Fund's models become more globally focused and less tailored to the Australian market. Lonsec notes the continuation of long-standing senior investment staff with the Fund as a mitigating factor. Research and integration of Australian-specific factors into the Fund's models continue to be an area of interest in Lonsec's reviews.
- Lonsec believes that key person risk is moderate to low which largely reflects the Manager's quantitative investment process. However, Lonsec notes the consistent factor churn and ability to manually override the quantitative model as lifting key person risk above that of a mostly static quantitative process with low factor turnover. Given this assessment, Lonsec considers there to be a degree of key person risk residing with Dr McCorry.

Research and portfolio construction

- All aspects of the investment process are highly systematic and repeatable. Rather than attempting to pick individual stocks or forecast returns, BlackRock concentrates its research efforts on developing quantitative insights and research that support the validity of its factors. As a quantitative process, BlackRock does not follow traditional fundamental techniques such as company visits and modelling of earnings estimates but outsources this function to brokers who provide daily data for BlackRock's models. The data is cleansed and standardised by BlackRock to facilitate effective analysis. The data cleansing is largely automated with the only human involvement being via exception checking.
- BlackRock's quantitative model will typically include circa 30 different signals and while the weighting allocated in the model to five high-level factor groups tends to be reasonably stable – earnings direction, relative valuation, earnings quality, market signals and timing signals – Lonsec considers the Manager to be relatively active in changing the underlying signals within each factor group compared to other quantitative fund managers. For instance, the Manager may elect to change the valuation signal in

the model from price to earnings to price to cashflow if it considers such a change will enhance the model.

- BlackRock has consistently introduced new quantitative signals over the years, in line with its 15% p.a. signal turnover expectation. Lonsec believes the Manager's signal-refresh agenda is underpinned by an economically sound, rigorous research and validation process. This research process sits within a robust peer review and governance framework with only meaningful research outcomes being approved for portfolio/strategy inclusion. The Manager recognises that sources of return embedded into signals decay over time and therefore constant innovation and research are conducted to generate alpha-yielding signal outcomes. Current research themes include leveraging big data, M&A activity, sustainability/ESG and dynamic risk budgeting. More recently, the Manager's research agenda has drawn upon differentiated data sources such as online job listings as an indicator of business conditions and shareholder voting on board remuneration as a predictive indicator of potential grievances. Lonsec is pleased to see the Manager's research agenda also focused on nuances of the Australian market. Lonsec views the scope, depth and rigour of the Manager's research agenda favourably and a step ahead of some of its peers.
- Lonsec notes that portfolio managers have a level of discretion in changing the weights of signal groups, augmenting the quantitative decision-making model. Whilst only applied when required, Lonsec views this as a pragmatic tactical lever to calibrate active risk exposures particularly when the portfolio is subject to large market dislocations as seen in recent years. Over the long term, Lonsec expects this to enhance model outcomes, although this is subject to manager skill. Lonsec will continue to monitor this aspect in future reviews.
- In addition, Lonsec notes that the Manager is able to exercise a degree of discretion over individual security selection within the portfolio. Typically, this is used to neutralise stock positions back to benchmark weight when the portfolio managers consider the risk of the model's position to be understated i.e. there may be a specific event impending relating to that company. The ability to apply discretion also includes a small sleeve of the portfolio that is dedicated to special events.
- The Manager's portfolio construction process is highly systematic and guided by the creation of security rankings within the model. Accordingly, 'buy' and 'sell' decisions tend to strongly reflect the output of the model. The same investment approach is consistently applied across BlackRock's 'long only' and 'long/short portfolios', with the removal of the 'short' constraints in the 'long/short' portfolio. Additionally, Lonsec notes that the Manager regularly reviews performance attribution to measure the efficacy of the model.
- All trades are implemented through a proprietary trading platform, where all trading costs are incorporated into decision-making to ensure efficient outcomes. Trading costs are integrated systematically into the portfolio construction process, which influences position sizing. Lonsec considers BlackRock's integration of portfolio construction, risk

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management and portfolio implementation to be a strength of the process.

ESG Integration

- Lonsec's ESG integration assessment considers how rigorous, robust and structured the ESG process for the Fund is as well as how well it integrates into the overall investment process and the Manager's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings of the Fund's portfolio or the Manager's adherence to any form of impact, green / sustainable or ethical standards.
- At the corporate level, Lonsec views the Manager's overall ESG policy framework and disclosure as ahead of peers. The Manager has an articulated commitment to the integration of ESG within their investment process with clear public positioning and evidence of a strong policy framework. The updated ESG policy and stewardship principles are freely available on the firm's website. The proxy voting policy and reporting on voting outcomes is stronger than peers with particular credit paid to the disclosure of voting rationale for controversial votes. The level of disclosure with respect to the Manager's engagement policies and outcomes is considered ahead of peers, particularly the firm's stewardship policies. Reporting on engagement outcomes is publicly available and the Manager is transparent about the engagement priorities, which focus on disclosure and climate change related issues.
- The Manager has indicated that their Responsible Investment style is "ESG Integration" and as such they take Environmental, Social and Governance factors into consideration when assessing investment opportunities. With a primary ESG style of "Benchmark Selection" the Manager is relying on the screening of the index provider to perform the key ESG analysis rather than using an internal process. Note that such an approach does not automatically ensure that the resulting portfolio will adhere to any particular structure or provide any particular level of ethicalness, greenness or sustainability, depending on the Benchmark chosen.
- Within the management of this specific Fund, Lonsec notes:
 - Lonsec considers the Manager sources ESG data within their investment process in a structured and thorough manner. Multiple data providers are accessed. Data to enable strong compliance checking is accessed and data collection and storage processes are robust.
 - Lonsec believes that while there is evidence of ESG research forming an element of the overall research activities, this is largely sourced from outside the investment team, relying heavily on external data providers. Pleasingly the Manager's research process generates a proprietary score allowing downstream measurement at the portfolio level. Research is stored in a centralised dashboard facilitating sharing across analysts.
 - There are defined links from the Manager's research to the stock selection process through their quantitative stock selection models. This adjustment is applied in a standardised and consistent manner.

- There is little in the way of portfolio-level ESG risk measurement apparent. There are no portfolio-level ESG-based limits or targets in place for the fund.
- There are no signs that company engagement on ESG issues is a component of the Manager's current investment approach for this Fund.
- ESG does not form a component of the Manager's broader compliance framework and overall transparency provided to investors is lagging. Pleasingly voting on the Fund is directed by the Fund's portfolio manager directly.

Risk management

- Lonsec considers the risk systems and processes at the Manager's disposal to be well-developed and of a relatively high quality. Specifically, Lonsec has a high opinion of the 'BlackRock Aladdin' portfolio and order management platform, believing its functionality and depth of coverage offer appealing attributes.
- Similar to competing strategies that utilise a systematic quantitatively driven investment process, BlackRock constructs this portfolio with an optimisation model that ensures portfolio risk and ex-ante Tracking Error limits are adhered to. However, there is an ability for the team to sense check the buy-list via daily review of the stock list, allowing them to override the model. In order to control the risk, the process allows for human interruption into the system-driven risk process on three levels: an individual stock level, a signal level and the highest, market, level. Additionally, the Manager regularly reviews performance attribution to ensure signal group efficacy.
- Lonsec considers the constraints pertaining to active risk within the underlying portfolio i.e. Benchmark +/-1.25% active stock weights and Benchmark +/-2.0% active sector weight, to be rather conservative, thus implying the Fund will be unable to take on excessive active risk relative to the underlying constituents of the Benchmark. Lonsec also notes that the majority of the Fund's active risk contributions are from stock-specific risk factors and views this favourably.

Capacity management

- As at 31 August 2023, the total funds under management ('FUM') being managed by the BlackRock Australian Systematic Active Equities team is \$8.7bn, of which \$110.5m sits within this Fund. Lonsec will continue to monitor BlackRock's capacity management going forward but does not have any immediate concerns.

Fees and Costs

- Lonsec considers the total fee load for the Fund (AFC of 0.46% p.a.) as competitive relative to peers and the broader Australian equity universe.
- The buy/sell spread is 0.15%/0.15% and net transaction costs disclosed under RG97 reporting regime are nil, thus Lonsec considers the buy/sell spreads to have been operating effectively.

Product

- The Fund is a relatively standard listed Australian equities smaller companies strategy. Lonsec does not consider the product to be operationally challenging to implement. BlackRock is a domestically significant

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asset management firm that uses ‘tier 1’ service providers.

- The Responsible Entity (‘RE’), is a related entity – BlackRock Investment Management (Australia) Limited. The RE is responsible for operating and managing the MIS, holds an AFSL and as such is required to comply with its AFSL and RE obligations as outlined under the Corporations Act. Lonsec notes the RE has built experience in operating and managing a number of schemes over an extended period of time and is expected to have a governance framework in place to deal with any perceived conflicts.

Performance

- The Fund aims to outperform the S&P/ASX 300 Accumulation Index (‘the Benchmark’) by 2.2% p.a., after fees, over rolling three-year periods, whilst maintaining a similar level of risk to the Benchmark. All figures noted below are as at 31 July 2023 and net of fees.
- The Fund has not achieved its stated investment objective, with the Fund producing 11.2% p.a. over the three-year period, to underperform the Benchmark and peer median by 0.7% p.a and 1.1% p.a., respectively. Over the longer five-year period, the Fund slightly underperformed the Benchmark by 0.1% p.a., albeit outperforming the peer median by 0.4% p.a.
- Over the past 12 months the Fund outperformed the Benchmark and peer median by 0.9% and 1.2%, respectively. Over the month of July, all factors contributed strongly to performance, other than earnings direction which was a mild detractor.
- Overall, while Lonsec notes that the Fund’s returns have been disappointing over the medium term, this is not an unexpected outcome. Strategies of this nature are expected to underperform in environments that are not driven by fundamentals but by macro thematic factors. Typically, quantitative models are not nimble enough to react to markets where there are sudden and consistent changes in factor dominance.
- Lonsec notes that the Fund’s Tracking Error has generally been below its 2% p.a. target across all time periods and has averaged 1.5% p.a. over 10 years. This has been lower than the maximum allowable risk levels. Lonsec confirms BlackRock is aware of the Fund’s lower Tracking Error but is also wary of ‘dialling up’ risk to meet targets as this could lead to higher than intended risk levels at a time where markets have been driven by a range of non-fundamental factors. That said, the Manager expects Tracking Error to trend higher as the market continues to stabilise.

Overall

- Lonsec has maintained the Fund’s ‘Recommended’ rating. Lonsec assesses BlackRock’s quantitative investment process and rigorous research into proprietary signals to be a competitive advantage. Moreover, Lonsec highlights the strong resourcing and support provided to the Fund by the broader BlackRock business, including risk management systems, research and idea generation, technology and trading systems support. Also supporting the Fund’s rating is the competitive fee load.
- Disappointingly, Lonsec notes that the Fund hasn’t achieved its stated performance objective which more recently is attributed to a more conservative portfolio and risk management approach given volatile market conditions. Lonsec will continue monitoring the Fund’s ability to deliver on its objective to build conviction in the offering.

People and Resources

Corporate overview

BlackRock Inc. is a provider of global investment management, risk management and advisory services to institutional and retail clients around the world. As of 30 June 2023, BlackRock’s assets under management (‘AUM’) totalled US\$9.4tn across equity, fixed income, multi-asset, alternatives, cash management and advisory.

BlackRock Inc. has grown organically and through acquisitions, notably: Merrill Lynch Investment Managers (2006) and Barclays Global Investors (2009). BlackRock is the world’s largest asset manager, managing assets for clients in North and South America, Europe, Asia, Australia, the Middle East, and Africa. The firm employs 18,000 professionals and maintains offices in 35 countries around the world.

BlackRock Asset Management Australia Limited is a wholly-owned subsidiary of BlackRock, Inc. BlackRock (Australia) has \$205.7bn in AUM as at 30 June 2023, has over 170 employees with 42 investment professionals and serves clients in 5 countries across the Asia Pacific region. BlackRock’s Systematic Active Equity team manages this strategy and has over 100 investment professionals located globally, collectively managing US \$136bn.

Size and experience

| NAME | POSITION | EXPERIENCE INDUSTRY / FIRM |
|--------------------|--|----------------------------------|
| DR MICHAEL MCCORRY | PORTFOLIO MANAGER / CIO AUSTRALIA | 31 / 26 |
| RYAN KIM | PORTFOLIO MANAGER / HEAD OF SAE (ASIA PACIFIC) | 20 / 20 |
| DR JEFF SHEN | PORTFOLIO MANAGER/ CO-HEAD OF INVESTMENTS SAE (ASIA/EM) | 26 / 19 |

The team leverages the global BlackRock network in the development of new insights, through weekly conference calls and annual offsite face-to-face meetings. The BlackRock SAE investment team is organised into functional divisions – Core Research, Portfolio

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Management, and Investment Strategy – which span all products/strategies within the group. There are three investment professionals responsible for the Fund - Dr Michael McCorry, Ryan Kim and Dr Jeff Shen. Day-to-day portfolio management responsibilities for the Fund are centralised in a team in San Francisco.

Dr Michael McCorry is jointly responsible for the performance of the Fund with Ryan Kim. McCorry is BlackRock Australia’s Chief Investment Officer (CIO) and a member of BlackRock Australia’s Board and Executive Committees.

Dr McCorry’s prior roles all involve leading portfolio management and research teams across Equities, Fixed Income, and Global Macro. He joined the firm in 1997 as Head of Research for Australia with responsibility for the ongoing development of Australia’s Active Investment Strategies.

Ryan Kim leads portfolio management for SAE in the Asia Pacific region and is jointly responsible for the management of the Fund. Kim joined the firm in 2003, and his tenure includes time at Barclays Global Investors (BGI), which merged with BlackRock in 2009. At BGI, he was a portfolio manager in the Asia Equity Group, managing and conducting research on the Pan Asia and Asia single-country strategies. He holds a BA, MBA and MFE (Masters in Financial Engineering).

Dr Jeff Shen is Co-Head of Investments, SAE, responsible for Asia Pacific and Emerging Market Active Equity Strategies. Shen’s service with BlackRock dates back to 2004, including his years with Barclays Global Investors (BGI), which merged with BlackRock in 2009. At BGI, he was the Head of Investment for Asia Pacific and Emerging Market active equities. He holds a BA, MA in Economics and a PhD in Finance from NYU.

Remuneration/Alignment of interest

The remuneration structure for analysts depends on their role in the overall investment process. Remuneration for investment staff is based on a Total Compensation Philosophy, which aims to pay total remuneration packages in the top quartile for fund managers. These packages include a fixed compensation reward, a profit share and a variable incentive scheme. The variable compensation element of any package is driven by corporate and individual performance.

Research Approach

Overview

| | |
|------------------------|--|
| INVESTMENT STYLE | QUANT - STYLE NEUTRAL |
| STOCK UNIVERSE | S&P/ASX 300 ACCUMULATION INDEX |
| TOP-DOWN | NIL |
| BOTTOM-UP | 100% |
| RESEARCH INPUTS | ENSURING THE EFFICACY OF EXISTING FACTORS, CONSIDERATION OF NEW PROPRIETARY FACTORS. |
| USE OF BROKER RESEARCH | COMPANY MODELLING AND FINANCIAL FORECASTING IS EFFECTIVELY OUTSOURCED TO 10 EXTERNAL BROKER FIRMS. THIS DATA IS USED TO UPDATE THE MANAGER’S INTERNAL DATABASES. |

BlackRock believes that continuous research is required to maintain the effectiveness of its systematic investment strategy. The Manager focuses most of its research time internally on developing insights and researching how company and market information impacts security prices.

The Manager then seeks to exploit market inefficiencies that have been validated by its research, ensure risk relative to the Benchmark is adequately compensated and considers transaction costs in constructing the final portfolio.

As a quantitative manager, BlackRock does not conduct company management meetings or other forms of qualitative analysis. Rather, the quantitative approach systematically calculates return forecasts across a large universe of stocks based on a number of traditional valuation, quality, earnings and technical market-related measures.

Quantitative analysis

The quantitative process assesses stocks based on five broad signal groups:

- Earnings Direction
- Relative Valuation
- Earnings Quality
- Market Signals
- Timing Signals

Return or ‘alpha’ forecasts are determined based on a combination of these factors. Additionally, the Fund will also take advantage of short-term opportunities such as dividend reinvestment plans and managing index changes, which are subject to portfolio manager discretion.

Portfolio Construction

Overview

| | |
|---------------------------------------|---|
| FUND BENCHMARK | S&P/ASX 300 ACCUMULATION INDEX |
| INTERNAL RETURN OBJECTIVE | TO OUTPERFORM THE BENCHMARK BY 2.2% P.A., AFTER FEES, OVER ROLLING THREE-YEAR PERIODS |
| INTERNAL RISK OBJECTIVE | TARGET TRACKING ERROR OF 2% P.A. |
| INVESTMENT STYLE | QUANTITATIVE WITH PORTFOLIO MANAGER OVERLAY |
| TYPICAL NUMBER OF HOLDINGS | 90-150 |
| MARKET CAPITALISATION BIAS | LARGE |
| EXPECTED PORTFOLIO TURNOVER | 80-120% P.A. |
| OBSERVED ACTIVE SHARE | 32.1% (JULY 2023) |
| PORTFOLIO EXPOSURE IN TOP 10 HOLDINGS | 45.4% (JULY 2023) |

The portfolio construction process is based primarily on each stock’s ranking and expected return forecast or alpha derived from the quantitative model. The portfolio construction process is highly systematic and transparent in regard to stocks that are purchased and sold from the portfolio. BlackRock also integrates risk, specific and common, and transaction costs into the portfolio construction process, described as portfolio ‘optimisation’.

The objective of the ‘optimisation’ process is to maximise expected active return, relative to expected active risk i.e. Tracking Error, and transaction costs. From this analysis, a trade list of stocks to be bought or sold is generated daily. Active weights typically are within Index+/-1.25% of the Benchmark weight, whilst portfolio turnover typically stands at 80-120% p.a.

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Risk Management

Risk limits

| | |
|-------------------------------------|----------------|
| SEPARATE INVESTMENT RISK MONITORING | YES |
| STOCK LIMIT | INDEX +/-1.25% |
| SECTOR LIMITS | INDEX +/-1.0% |
| DERIVATIVES PERMITTED | NO |

Hard limits pertaining to active risk – Benchmark +/-2.0% for active stock weights and Benchmark +/-2.0% for active sector weights - are conservative. As such, the Fund is restricted from taking on excessive active risk relative to the underlying constituents of the Benchmark.

Risk monitoring

BlackRock constructs this Fund by adhering to various constraints set forth in the mandate design. Pre-trade compliance is performed on all securities prior to their inclusion into the portfolio using the BlackRock Aladdin portfolio management platform.

Risk monitoring and management are highly integrated within the investment process and are an integral component of BlackRock’s investment strategy. In constructing the portfolio, BlackRock utilises a BARRA multi-factor risk model and a number of proprietary in-house risk tools. The resultant portfolio is designed to have a beta of one, with no discernible bias to any one style.

Risks

An investment in the Fund carries a number of standard investment risks associated with investment markets. These include performance, liquidity, counterparty, market and tax risks. These and other risks are outlined in the PDS and should be read in full and understood by potential investors. Lonsec considers the following to be the major risks:

Equity market

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment, both positive and negative.

Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

Derivatives

The Manager has scope, via its PDS, to implement various derivative strategies with the objective of mitigating equity market risks. Lonsec does not expect this to be a widely adopted strategy and will generally be restricted to using futures as a method of investing residual cash balances. Derivatives cannot be used to leverage the Trust.

ANALYST: MITCHELL RYAN | APPROVED BY: RICHARD DALIDOWICZ

BlackRock Advantage Australian Equity Fund

Quantitative Performance Analysis - annualised after-fee % returns (at 31-7-2023)

Performance metrics

| | 1 YR | | 3 YR | | 5 YR | | 10 YR | |
|-----------------------------|-------|-------------|--------|-------------|--------|-------------|--------|-------------|
| | FUND | PEER MEDIAN | FUND | PEER MEDIAN | FUND | PEER MEDIAN | FUND | PEER MEDIAN |
| PERFORMANCE (% PA) | 12.01 | 10.72 | 11.23 | 11.76 | 7.35 | 6.96 | 8.18 | 8.29 |
| STANDARD DEVIATION (% PA) | 14.07 | 13.57 | 13.68 | 13.44 | 16.43 | 16.25 | 13.67 | 13.79 |
| EXCESS RETURN (% PA) | 0.92 | -0.55 | -0.68 | -0.46 | -0.11 | -0.51 | -0.12 | -0.08 |
| OUTPERFORMANCE RATIO (% PA) | 50.00 | 50.00 | 41.67 | 50.00 | 48.33 | 46.67 | 45.00 | 49.58 |
| WORST DRAWDOWN (%) | -5.91 | -6.32 | -12.56 | -11.87 | -26.23 | -26.29 | -26.23 | -25.97 |
| TIME TO RECOVERY (MTHS) | 2 | 2 | 7 | 4 | 12 | 12 | 12 | 12 |
| SHARPE RATIO | 0.63 | 0.54 | 0.74 | 0.80 | 0.37 | 0.36 | 0.47 | 0.48 |
| INFORMATION RATIO | 0.87 | -0.25 | -0.55 | -0.17 | -0.08 | -0.13 | -0.08 | -0.04 |
| TRACKING ERROR (% PA) | 1.06 | 2.82 | 1.24 | 3.05 | 1.39 | 3.02 | 1.51 | 2.77 |

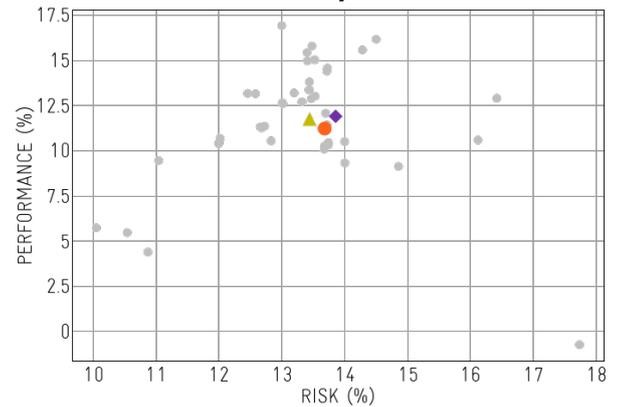
PRODUCT: BLACKROCK ADVANTAGE AUSTRALIAN EQUITY FUND
 LONSEC PEER GROUP: AUSTRALIAN EQUITIES - AUSTRALIAN LARGE CAP - CORE / STYLE NEUTRAL
 PRODUCT BENCHMARK: S&P/ASX 300 TR INDEX AUD
 CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
 TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

Growth of \$10,000 over 10 years



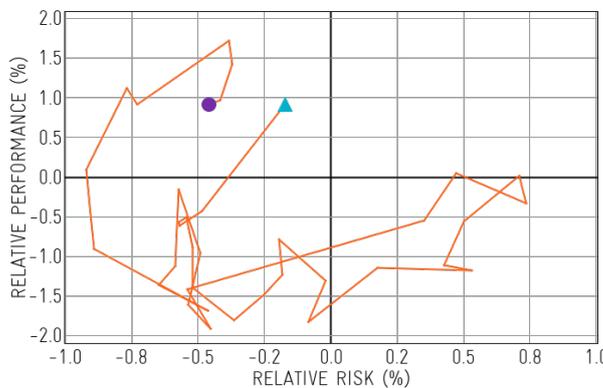
— BLACKROCK ADVANTAGE AUSTRALIAN EQUITY FUND
 S&P/ASX 300 TR INDEX AUD

Risk-return chart over three years



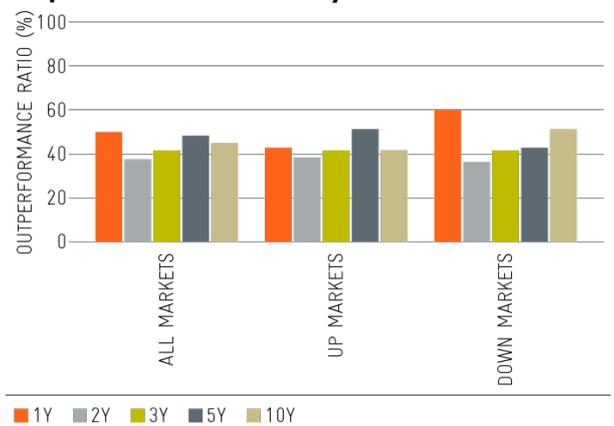
● BLACKROCK ADVANTAGE AUSTRALIAN EQUITY FUND
 ◆ S&P/ASX 300 TR INDEX AUD
 ▲ PEER MEDIAN
 ● PEERS

Snail trail



● START (07-2020) ▲ END (07-2023)

Outperformance consistency



■ 1Y ■ 2Y ■ 3Y ■ 5Y ■ 10Y

BlackRock Advantage Australian Equity Fund

ISSUE DATE 25-09-2023

ANALYST: MITCHELL RYAN | APPROVED BY: RICHARD DALIDOWICZ

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Glossary

Total return ‘Top line’ actual return, after fees
Excess return Return in excess of the benchmark return
Standard deviation Volatility of monthly Absolute Returns
Tracking error Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)
Sharpe ratio Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)
Information ratio Relative reward for relative risk taken (Excess Returns / Tracking Error)
Worst drawdown The worst cumulative loss (‘peak to trough’) experienced over the period assessed
Time to recovery The number of months taken to recover the Worst Drawdown
Snail Trail A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

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