



# Product Review

## BlackRock Global Liquid Alternatives Fund — Class S1

ISSUE DATE 20-11-2023

### About this Review

ASSET CLASS REVIEWED	ALTERNATIVES
SECTOR REVIEWED	GROWTH ALTERNATIVES (MODERATE)
SUB SECTOR REVIEWED	FOHF
TOTAL FUNDS RATED	4

### About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	BLACKROCK GLOBAL LIQUID ALTERNATIVES FUND - CLASS S1
APIR CODE	BLK1870AU
PDS OBJECTIVE	ACHIEVE A RETURN OF 3 - 5% P.A. (NET) ABOVE THE RBA CASH RATE OVER ROLLING THREE-YEAR PERIODS.
INTERNAL OBJECTIVE	SAME AS PDS OBJECTIVE
STATED RISK OBJECTIVE	VOLATILITY OF 3 - 5% P.A. OVER ROLLING THREE-YEAR PERIODS & LOW CORRELATION OF RETURNS TO EQUITY AND BOND MARKETS
DISTRIBUTION FREQUENCY	ANNUALLY
FUND SIZE	\$0.2M (OCTOBER 2023)
FUND INCEPTION	08-09-2023
ANNUAL FEES AND COSTS (PDS)	2.33% P.A. (INCLUDES PERFORMANCE FEE ESTIMATE OF 0.52% P.A.)
RESPONSIBLE ENTITY	BLACKROCK INVESTMENT MANAGEMENT (AUSTRALIA) LIMITED

### About the Fund Manager

FUND MANAGER	BLACKROCK INVESTMENT MANAGEMENT (AUSTRALIA) LIMITED
OWNERSHIP	BLACKROCK, INC.
ASSETS MANAGED IN THIS SECTOR	\$1.24BN (SEPT 2023)
YEARS MANAGING THIS ASSET CLASS	19

### Investment Team

PORTFOLIO MANAGER	MICHAEL MCCORRY, KARSTEN KUMPF
INVESTMENT TEAM SIZE	17
INVESTMENT TEAM TURNOVER	LOW
STRUCTURE / LOCATION	SYDNEY

### Investment process

TYPICAL NUMBER OF UNDERLYING STRATEGIES	8 - 10
USE OF LEVERAGE, DERIVATIVES AND SHORT SELLING	EMPLOYED AT UNDERLYING FUND/STRATEGIES LEVEL
UNDERLYING LEVERAGE	3-10 TIMES NAV
CURRENCY APPROACH	FULLY HEDGED TO AUD

### Fund rating history

NOVEMBER 2023	RECOMMENDED
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### 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

- A well-resourced team led by Michael McCorry, CIO, and Karsten Kumpf, Head of Portfolio Management.
- Single layer of management and performance fees at the Fund level (unlike standard fund of hedge fund structures).
- Full transparency into the daily trading positions of underlying strategies, through the Manager's unified BRS Aladdin risk management system and a high level of access to investment staff.
- Comprised of daily liquid hedge funds and offers daily investor redemption terms.
- Attractively positioned from a capacity point of view.

### Weaknesses

- The permissible investment universe is considered limited in breadth relative to peers, albeit remains an area of growth for the firm.
- The performance fee hurdle rate is considered modest relative to the investment objectives.
- Lack of demonstrable live performance history (inception Sep 2023), albeit the team has a long term track record in managing strategies with a similar construct.

### Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK	●		
CAPITAL VOLATILITY		●	
CREDIT RISK		●	
FOREIGN CURRENCY EXPOSURE		●	
LEVERAGE RISK			●
REDEMPTION RISK		●	
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.

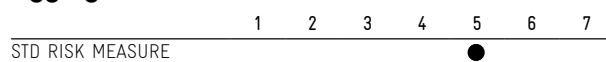
ANALYST: MICHAEL ELSWORTH | APPROVED BY: RUI FERNANDES

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## BIOMETRICS

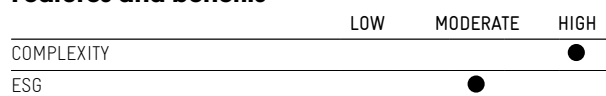
### Aggregated risks



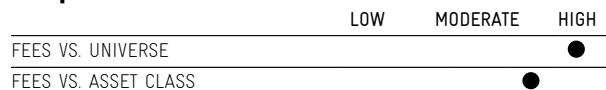
A Standard Risk Measure score of 5 equates to a Risk Label of 'Medium to High' and an estimated number of negative annual returns over any 20 year period of 3 to less than 4. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.



### Features and benefits



### Fee profile



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

## What is this Fund?

- The BlackRock Global Liquid Alternatives Fund – Class S1 ('the Fund') is a multi-strategy hedge fund, which gains exposure to a range of BlackRock single-manager strategies across several sub-categories including equity long/short market neutral, global macro, fixed interest long/short, event driven and style premia. The Fund seeks to achieve consistent, risk controlled, absolute returns with low correlation to major asset classes. It targets a return of 3-5% p.a. (net) above the RBA Cash Rate with volatility (Standard Deviation) of 3-5% p.a. over rolling three-year periods.
- The Fund invests into pooled fund investments ('underlying strategies') managed by BlackRock or other members of the BlackRock Group, direct physical investments, and exchange-traded and over the counter (OTC) derivatives.
- While BlackRock Investment Management (Aust.) Limited ('BlackRock' or 'the Manager') closely monitors investment risk, investors should note the ability of the Fund to include high levels of leverage through the underlying strategies.
- The Fund's PDS dated 08 September 2023 disclosed Annual Fees and Costs ('AFC') totaling 2.33% p.a. This value comprises (1) management fees and costs of 0.81% p.a. (2) performance fee estimate of 0.52% and; (3) net transaction costs of 1.00% 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 to these estimates, with performance fees having the potential to vary significantly based on the Fund's realised performance and the fee's calculation requirements. The Manager also offers a management fee only unit class of the Fund (APIR: BLK6340AU) which is separately rated by Lonsec.
- The Fund currently does not charge a buy/sell spread. These spreads can be subject to change however,

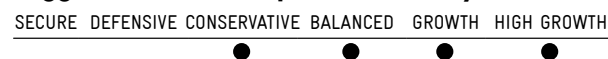
most notably during periods of market volatility. Please refer to the Manager for current buy/sell spreads and the PDS for further details on fees and costs.

## 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 collected 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 exhibits moderate volatility which Lonsec believes is best funded from an investor's growth asset allocation and is suitable for mid-risk profile investors with three-to-five year plus investment time horizons. The Fund offers potential diversification benefits through low correlations with traditional asset classes.
- Lonsec reminds investors that the Fund can invest in relatively unconstrained hedge funds, meaning that there are few restrictions on the strategies or investment "tools" employed by the underlying managers. Alternatives investing is not without additional risks, and an investor's tolerance for alternative asset specific risks such as those associated with the use of leverage, derivatives, illiquidity, transparency and asset pricing frequency should also be considered.

## Suggested Lonsec risk profile suitability



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

- This is Lonsec's initial review of the Fund.

## Lonsec Opinion of this Fund

### People and resources

- Michael McCorry, Head of Multi-Asset Strategies and Solutions ('MASS') and Chief Investment Officer (CIO) for BlackRock in Australia, has responsibility for its entire range of investment capabilities including this Fund. McCorry is supported in this role by Karsten Kumpf, Head of Portfolio Management. Kumpf is responsible for the daily portfolio management of this Fund and several others, which involves due diligence of underlying strategies and portfolio optimisation. Kumpf joined BlackRock in 2006 and has a broad role as part of BlackRock's MASS Group. Lonsec considers both McCorry and Kumpf to be experienced investors with considerable track records at BlackRock. The duo is further supported by Katie Petering as Lead Strategist for the Fund, Head of Strategy for MASS Australia and Chair of the APAC Hedge Fund SteerCo.

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- The local MASS team totals 17 professionals including the individuals discussed above. The team is a mix of portfolio managers, manager selection specialists and solutions strategists. The portfolio management team is also supported by a few dedicated support staff in India. The median industry and firm experience across the local team is over 15 and 10 years respectively.
- Given BlackRock's collective team-based portfolio management approach, Lonsec notes that the investment team have responsibilities beyond this Fund. That said, Lonsec regards the team as adequately resourced despite the numerous strategies under their management. Lonsec considers McCorry and Kumpf to be the key decision makers for the Fund and, as such, there is an element of key person risk present given their level of involvement, breadth of responsibilities and intimate knowledge of BlackRock's internal capabilities.
- The team manages a range of multi-asset and alternative funds, alongside maintaining oversight of all globally manufactured BlackRock strategies in Australia. BlackRock benefits from the depth of resources available globally and the ability to extract the 'best ideas' and views from those resources. The MASS team has access to the broader global Multi-Strategies Group and BlackRock's specialist sector teams in Australia and abroad and over the years has demonstrated an ability to effectively leverage the broader firm's expertise.
- Lonsec considers alignment of interests to be adequate given senior members of the investment team are co-invested in the Fund at their own discretion. Variable remuneration is linked to the performance of the Fund. Additionally, BlackRock has a formal long-term discretionary incentive plan in place for investment staff, and bonuses are dependent on company and business unit performance, as well as an assessment of an individual's contribution to meeting objectives. Lonsec generally prefers to see a high level of variable remuneration linked to Fund performance and/or analysts' recommendations. Lonsec believes that suitably designed incentive structures can improve investor outcomes.

## Research and portfolio construction

- The Manager attempts to blend complementary alternative investment strategies, limited to internal daily liquid BlackRock hedge fund capabilities, to create a portfolio that aims to deliver low correlation with traditional asset classes. Whilst Lonsec recognises some benefits of using internal capabilities (e.g. access, pricing, and transparency), competing fund of Hedge Fund (FOHF) peers have access to a considerably broader range and depth of hedge fund strategies. The wider breadth to select from is particularly beneficial should the need arise to replace an incumbent strategy for various reasons e.g. performance related, capacity issues or key personnel departures.
- The Fund has an investment universe of 24 hedge funds of which eight are currently in use. At present, Lonsec considers the breadth of available strategies to be limited and at a relative disadvantage to FOHF peers with an open investment mandate. However, Lonsec understands that expanding this portfolio of

daily liquid hedge funds is a key priority for the firm going forward. Additionally, the MASS team over its long track record has demonstrated a willingness to identify and request new products with desired characteristics from underlying hedge fund teams. Lonsec gains some comfort from these observations and will continue to monitor the rate of incremental innovation and expansion of the underlying funds line-up over time.

- Due diligence is conducted on existing and prospective underlying strategies at least twice annually. Underlying strategies must meet three key criteria: the ability to add value above objectives, low 'beta' or correlation to the traditional asset classes and low correlation to other underlying strategies. Both qualitative and quantitative analysis are undertaken to form views of expected risk, return, correlations and expected trading costs. Lonsec considers the Manager's research process to be comprehensive and consistently applied and has observed an appreciable level of insight and understanding of the underlying strategies demonstrated by the team.
- The Fund's portfolio construction process utilises a mean-variance optimisation with the aim of combining underlying strategies that generate diversified 'alpha' streams with minimal exposure to market 'beta'. The outputs of the underlying strategy research (risk & return expectations and correlations) are inputs into the optimisation process, as are considerations around limiting tail and liquidity risks. The Fund does not have stated risk or asset allocation ranges or limits but will tend to avoid excessive concentration in any underlying alpha strategies. Any recommended changes to Fund allocations are discussed and formally approved by McCorry on a monthly basis. Lonsec considers the Fund's portfolio construction process to be structured and logical, allowing the views of the investment team to be systematically captured.
- Investing in in-house strategies can bring about their own set of risks in the form of conflicts of interest, obligatory investment requirements and/or delayed exit of underperforming managers. Numerous interactions with the MASS team over the years, on varying strategies, has provided Lonsec comfort in the Manager's tactical asset allocation, sell discipline and handling of potential conflicts. Also, while the team has seeded several BlackRock strategies in its operating history, it is considered fairly autonomous with no obligations to invest where strategies do not fully align with the desired characteristics. Lonsec considers these aspects positively and will continue to monitor aspects related to conflicts of interest and strategy allocations in the future.
- The final portfolio is invested in eight underlying hedge funds (c. 30 alpha strategies) allocated across five primary risk buckets – Systematic active equities, Global macro / Managed futures, Systematic fixed income, Fundamental equities, and Style premia. Additionally, the Fund is exposed to over 40,000 active positions and is highly diversified in terms of risk contribution at the sub-(alpha) strategy level of these hedge funds. The underlying funds are also largely systematic with generally slow-moving cross strategy correlations through time. The Manager

has reasoned that this allows them to better control relative market neutrality and beta exposure over a market cycle. The flipside in Lonsec's view, however, is that the Fund may miss out on capturing alpha from strong positive directional market movements and undershoot its risk budget.

- BlackRock believes capacity for this product approximates A\$1-2bn. Lonsec does not have any capacity concerns based on the strategy's current assets under management.

## 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 not indicated any ESG approach in their submissions to Lonsec. While the Manager may be undertaking some activities that would be considered ESG integration Lonsec is unable to provide guidance on how that might reflect portfolios.
- Within the management of this specific Fund Lonsec notes:
  - The Manager has no observable approach to the collection or use of ESG data within their investment process.
  - There is no internal ESG research carried out by the Manager for this Fund.
  - There is no relationship between ESG factors and the stock selection process.
  - Portfolio level measurement or assessment of ESG risks is not evident.
  - 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 Managers broader compliance framework and overall transparency provided to investors is lagging.
- That said, given the nature of the investments and the strategy of the fund, relevance and evidence of ESG

integration within the Fund's investment process is deemed to have minimal applicability.

## Risk management

- Lonsec believes BlackRock's risk management systems and capabilities are market leading. That said, Lonsec notes that the Fund has no formal hard risk allocation constraints at the aggregate portfolio level. While Lonsec would attest to the strength of BlackRock's separate Risk and Quantitative Analysis (RQA) capability, investment risk is primarily managed through diversification of the underlying strategies as well as a singular target risk range of 3-5% p.a. (Standard Deviation). Lonsec believes formal risk guidelines would assist in the avoidance of unintended bets as these measures are an important feature of a prudent risk management framework.
- Lonsec is pleased to see multiple layers of risk monitoring for the Fund. Each underlying strategy has investment guidelines monitored by the relevant portfolio management team and BlackRock's RQA team. Scenario analysis is performed to improve the understanding of the portfolio and to help mitigate overall systemic risk. At the aggregate Fund level, the RQA team monitors risk exposures and works collaboratively with the Fund's investment team to manage risk.
- The Manager has full transparency to the daily trading positions of its underlying strategies, through its unified BRS Aladdin risk management system and a high level of access to investment staff. Lonsec believes this level of transparency improves the risk monitoring function and engenders a greater understanding of risk exposures in the aggregate portfolio.

## Fees

- Lonsec considers the total fee load for the Fund (AFC of 2.33% p.a.) including a performance fee charged at the headline level as moderately high relative to other strategies within the asset class. The Fund benefits from a transparent management fee structure and has the ability to net performance fees at the underlying fund level, unlike a standard fund of hedge funds (FOHF) structure. That said, Lonsec considers the Fund's performance fee hurdle rate (RBA cash rate) as modest relative to its investment style and performance objectives. Lonsec believes this can be further strengthened by an absolute performance hurdle set in accordance with the Fund's investment objectives.
- The Fund currently does not charge a buy/sell spread, and as net transaction costs disclosed under the RG97 reporting regime are 1.00%, Lonsec considers the buy/sell spread to be a watchpoint.

## Product

- The Fund is a registered managed investment scheme (MIS) for which BlackRock Investment Management (Australia) Limited is the Responsible Entity (the RE). 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. While the use of external RE's is Lonsec's preferred operating model, Lonsec notes the RE has built experience in operating and managing a number of schemes and is expected

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to have a structured governance framework in place. Furthermore, the RE has employed tier-one service providers for its custodian, administrator and auditor.

- The Fund gains its exposure through investments in number of underlying hedge funds and alternative strategies including, but not limited to: equity long/short market neutral, global macro / managed futures, fixed interest long/short, event-driven and style premia. The Fund may also employ high levels of leverage through the underlying sub-strategies. Investing in these instruments brings additional operational complexity when compared to traditional assets as does the feeder fund structure of the trust. The Manager is however, considered to have adequate expertise in pursuing the strategy.
- The Fund provides daily liquidity to investors with all underlying strategies also subject to the same liquidity terms. Lonsec considers this an appealing aspect of the Fund relative to FOHF structures which despite offering higher liquidity at the headline level may be subject to varying redemption terms for the underlying funds.

## Performance

- The Fund targets net returns of 3-5% p.a. above the RBA Cash Rate target over rolling three-year periods, with expected volatility (Standard Deviation) of 3.5% p.a. over the same period. The Manager believes this translates to an absolute return target of 7-9% p.a. over rolling three years.
- The Fund was recently inception (September 2023) and thus does have a demonstrable live track record. Performance commentary below is for a historical simulation of the underlying hedge fund strategies using static monthly portfolio weights. All figures below are to September 2023 (gross) unless otherwise stated.
- For the three and five years, the simulated static portfolio generated 5.7% and 4.2% p.a. respectively versus the RBA cash rate of 1.1% p.a. for both periods. The simulated portfolio volatility during this time was 2.6% and 3.0% p.a. respectively.
- As of September 2023, the Fund's capital was allocated as follows: Systematic active equities – 30.1%, Global macro / Managed futures – 20.2%, Systematic fixed income – 19.6%, Style premia – 15%, and Fundamental equities – 14.8%. Systematic active equities is also the key risk driver contributing nearly 40% of the portfolio risk, followed by global macro at 26% and systematic fixed income and style premia at roughly 18% each.

## Overall

- Lonsec has assigned the Fund a 'Recommend' rating. This is underpinned by Lonsec's conviction in the team, a well-structured and transparent investment process and an attractive proposition from a capacity front.
- The Fund's permissible investment universe is an area of growth for the firm and while the Fund has an overall investor-friendly fee structure, Lonsec believes the performance fee hurdle rate can be improved to better align with the investment return target. Given it's recent inception, the Fund's potential

for alpha generation and consistency through time will be elements of focus in future reviews.

## 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. BlackRock's asset under management (AUM) totaled US\$9.1trn across equity, fixed income, multi-asset, alternatives, cash management and advisory (Sept 2023). BlackRock, Inc. has grown both organically and through acquisitions, notably: Merrill Lynch Investment Managers (2006) and Barclays Global Investors (2009). BlackRock is the world's largest asset manager by AUM, managing assets for clients in North and South America, Europe, Asia, Australia, the Middle East, and Africa. The firm employs over 19,000 professionals across offices spanning over 35 countries globally. BlackRock Investment Management (Australia) Limited is a wholly owned subsidiary of BlackRock, Inc. (NYSE: BLK) which has no single majority stockholder and has a majority of independent directors.

### Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
MICHAEL MCCORRY	HEAD OF MULTI-ASSET STRATEGIES AND CHIEF INVESTMENT OFFICER – AUSTRALIA	32 / 26
KARSTEN KUMPF	HEAD OF PORTFOLIO MANAGEMENT	17 / 17
KATIE PETERING	HEAD OF STRATEGY	27 / 6
DAVID GRIFFITH	HEAD OF MASS WHOLE PORTFOLIO SOLUTIONS	27 / 18

The BlackRock Multi-Asset Strategies and Solutions ('MASS') team is responsible for the management of the Fund. The local team currently comprises 17 investment professionals, with a mix of portfolio management, manager selection and client solutions responsibilities. Average industry and firm tenure for the team is over 15 and 10 years respectively. The team has further support from a few dedicated resources overseas. The MASS team sits within the wider BlackRock Australian Investment team providing Equities, Multi Asset Strategies and Fixed Income capabilities and reporting to CIO, Michael McCorry. MASS also has functional reporting lines to the global Multi-Asset Strategies and Solutions Group led by Richard Kuschel.

As CIO and lead Portfolio Manager, McCorry has ultimate investment responsibility for the Fund alongside its asset allocation and active risk budget. McCorry joined legacy Barclays Global Investors (BGI, which merged with BlackRock in 2009) in 1997. Prior to assuming the sole CIO role in October 2012, he held a number of senior roles across a range of asset classes. McCorry is supported by other members of the MASS team including Karsten Kumpf as Head of Portfolio Management and Katie Petering as Lead Strategist for the Fund, and Head of Strategy for MASS Australia and Chair of the APAC Hedge Fund SteerCo. Kumpf is the named co-Portfolio Manager and is responsible for

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the daily portfolio management of the Fund. Together, McCorry, Kumpf and Petering are also responsible for the due diligence and portfolio optimisation of the underlying strategy. Kumpf joined BlackRock (BGI) in 2006 and previously held senior positions in a number of technology and telecommunication businesses at prior firms. Petering joined the firm in 2017 as Head of Institutional iShares and was subsequently promoted to a Product Strategist role and more recently as the Head of Strategy.

The Multi-Asset Strategies and Solutions Committee meets weekly to monitor performance and make allocation decisions for the Fund. The Fund's asset allocation processes also leverage off the research capabilities of the group globally. Below is a list of committees and forums that the team has the ability to leverage off:

- Daily portfolio manager meetings;
- Weekly Equities and Fixed Income meetings (local and global);
- Weekly MASS Market Focus meeting;
- Monthly GTAA and Diversified Strategies meeting;
- Monthly Asset Allocation meeting; and
- Quarterly BlackRock Investment Institute, a forum established to capture senior PM views globally.

The MASS team also leverages other parts of the BlackRock business, including the Systematic Active Equities ("SAE") ETF and Index Investments ("EII"), Systematic Fixed Income ("SFI") and Risk & Quantitative Analytics ("RQA").

## Remuneration/Alignment of interest

Remuneration 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, profit share and a variable incentive scheme. The variable compensation element of any package is driven by corporate and individual performance. For more senior investors, variable remuneration becomes a higher percentage of total compensation and a more significant percentage of the annual bonus is paid in the form of restricted stock awards that vest ratably over three years.

## Research Approach

### Overview

Regular due diligence on existing and potential new underlying strategies within BlackRock occurs at least twice annually. Research is a blend of qualitative and quantitative analysis focused on finding strategies where there is a high degree of confidence that it will outperform its benchmark and that its alpha source is lowly correlated to existing alpha sources in the portfolio and traditional asset markets.

### Qualitative analysis

Key aspects of qualitative analysis are:

- Differentiation of opportunity set, strategy type, asset class, instruments.
- Analysis of investment process and decision oversight.
- Quality and track record of research team and process.

- Investment terms, liquidity, collateral management.

### Quantitative analysis

Key aspects of quantitative analysis are:

- Analysis of expected return, risk profiles, leverage and capital requirements.
- Expectations of risk factors, covariance and marginal risk contributions.
- Stress testing and sensitivity analysis to market betas and factors.
- Forecasting and management of liquidity profile.

## Portfolio Construction

### Overview

Mean-variance portfolio optimisation is used to determine the capital allocation of strategies. Outputs from the research process are used as parameters in this process, including the investment team's expectations for each underlying strategy's expected risk and return parameters, correlations between underlying strategies, and expected trading costs.

The optimisation process is performed monthly, and the results are presented to McCorry for review and approval. This process tends to result in incremental trading as inputs such as expected returns, risk, and correlations, typically do not change every month. Maintaining low portfolio turnover is of focus to reduce transaction costs and also given the Manager does not believe it has the appropriate signals to 'time' the underlying strategies.

The Fund currently invests in eight BlackRock funds across several sub-categories including systematic and fundamental equity market neutral, global macro, fixed income long/short, and style premia strategies. Given the emphasis on diversification of alpha sources, the Manager expects capital and risk allocations will vary across each of these sub-component strategies. This will be a function of expected risk and return parameters evolving throughout a market cycle.

As of September 2023, the portfolio's capital allocation was as follows:

- Systematic active equities – 30.1%
- Systematic fixed income – 19.6%
- Fundamental equities – 14.8%
- Global macro / Managed futures – 20.2%
- Style premia – 15%
- Cash – nil

The Fund currently invests into pooled vehicles as opposed to tailoring strategies via mandates.

## Risk Management

### Risk limits

SEPARATE RISK MONITORING	YES
SINGLE FUND EXPOSURE LIMIT	UNCONSTRAINED
MINIMUM NUMBER OF STRATEGIES	UNCONSTRAINED

The Fund does not have any hard risk limits such as maximum or minimum weights to sectors, single exposures, regions, etc. Risk is rather managed through diversification of strategies.

## Risk monitoring

Positions are monitored daily by the portfolio managers to ensure positions are in line with expectations and in compliance with hedging and liquidity requirements.

The Fund is also reviewed by BlackRock's Risk and Quantitative Analysis Group (RQA), which works collaboratively with the Portfolio Managers to provide separate risk management and oversight, understanding risk factors, and performing scenario and sensitivity analysis.

## Currency management

The Fund is an Australian registered managed investment scheme and is denominated in Australian dollars. The Fund primarily gains its exposure through investing in the underlying strategy funds, which are generally domiciled in Luxembourg, Ireland or Australia. The Fund generally invests into Australian dollar denominated share classes of these funds and the currency exposure between the base currency of the underlying strategy funds and the Australian dollar is generally hedged. It should be noted however that the underlying strategy funds may have active currency positions and this exposure is not hedged.

## Risks

**An investment in the Fund carries a number of standard investment risks associated with international investment markets. These include economic, market, political, legal, tax and regulatory risks. Investors should read the PDS before making a decision to invest or not invest. Lonsec considers the major risks to be:**

### Derivative risk

The underlying strategies which the Fund invests in may use derivative contracts to pursue their respective investment strategies or for the purposes of portfolio hedging. Derivative contracts are subject to certain risks, including market risk, counterparty risk (risk that a counterparty fails to perform their contractual obligations), and operations risk (risk of failure of internal controls).

### Leverage risk

Through the underlying strategies the Fund may use derivatives or borrow to create leverage, which at times may be substantial. The amount of gearing depends on a manager's investment strategy. The use of leverage may magnify the Fund's losses and gains. The Fund and the Underlying Fund allow borrowing. BlackRock intends to use this facility as a means of managing certain cash flows, rather than to leverage the Fund.

### Liquidity risk/Redemption risk

Investors may be exposed to securities and derivatives which are thinly traded or illiquid in nature. It may not be possible to sell such securities in a timely fashion or at a price at which is perceived to be at fair value.

### Credit risk

Investing in non-sovereign debt securities, such as corporate bonds, typically carries with it an increased level of credit risk. Credit risk generally refers to the extent of a borrower's willingness or ability to repay their debt. Higher credit risk generally infers a greater risk of capital loss. Credit investments are typically

split between investment grade (AAA to BBB-) and sub investment grade (BB+ to D). The underlying strategies may have exposure in credit securities, which bear varying degrees of credit risk.

### Currency risk

While the Fund is fully hedged back to Australian dollars, the Fund is able to invest in securities and exposures denominated or quoted in foreign currencies and may be subject to fluctuations in the Australian dollar against these currencies, or fluctuations of other currencies against each other. For example, if the value of the Australian dollar goes up compared to a foreign currency, an investment traded in that foreign currency will go down in value because it is worth fewer Australian dollars. In addition, the currency hedging means that foreign currency gains and losses can impact the taxable income able to be distributed by the Fund.

### Short selling risk

The underlying strategies which the Fund invests in may invest in short positions by borrowing a security from a securities lender and then selling it with the intention of repurchasing the security when the price falls. A short sale creates the risk of an unlimited loss as the security price could theoretically increase without limit. Further, a risk exists of the securities lender recalling the security after the security price has increased forcing the underlying strategy to repurchase the security at a loss.

## Quantitative Performance Analysis

The Product commenced on September 2023. As Lonsec prefers to consider performance over longer time periods, it will continue to monitor the performance of the Product as a more significant track record develops.

## 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

## About Lonsec

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