Lonsec

Recommended 4.

Product Review
BlackRock Global Real Estate Securities Fund (Aust) (Class S Units)

About this Review

ASSET CLASS REVIEWED	PROPERTY AND INFRASTRUCTURE
SECTOR REVIEWED	GLOBAL LISTED PROPERTY
TOTAL FUNDS RATED	7

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	BLACKROCK GLOBAL REAL ESTATE SECURITIES FUND (AUST) (CLASS S UNITS)
APIR CODE	BLK4727AU
PDS OBJECTIVE	THE FUND SEEKS TO MAXIMISE TOTAL RETURN BY INVESTING IN A PORTFOLIO OF GLOBAL REAL ESTATE SECURITIES
INTERNAL OBJECTIVE	TO OUTPERFORM THE BENCHMARK BY 2.0% (BEFORE FEES) OVER ROLLING THREE-YEAR PERIODS
STATED RISK OBJECTIVE	TO MAINTAIN A TRACKING ERROR BETWEEN 0-5%
FUND SIZE	$41.0M (OCTOBER 2023)
FUND INCEPTION	24-07-2023
ANNUAL FEES AND COSTS (PDS)	0.79% P.A.
RESPONSIBLE ENTITY	BLACKROCK INVESTMENT MANAGEMENT (AUSTRALIA) LIMITED

About the Fund Manager

FUND MANAGER	BLACKROCK INVESTMENT MANAGEMENT (AUSTRALIA) LIMITED
OWNERSHIP	BLACKROCK INC 100%
ASSETS MANAGED IN THIS SECTOR	$4.0B (OCTOBER 2023)
YEARS MANAGING THIS ASSET CLASS	10

Investment Team

PORTFOLIO MANAGER	BLACKROCK GLOBAL REAL ASSETS SECURITIES
INVESTMENT TEAM SIZE	18
INVESTMENT TEAM TURNOVER	MODERATE
STRUCTURE / LOCATION	DECENTRALISED / NEW YORK; LONDON; SINGAPORE; SYDNEY

Investment process

STYLE	CORE
MARKET CAPITALISATION BIAS	ALL CAP
BENCHMARK	FTSE EPRA NAREIT DEVELOPED INDEX NET TRI (AUD)
TYPICAL NUMBER OF HOLDINGS	60-90
STOCK LIMITS	+/- 5% OF THE BENCHMARK; EX-BENCHMARK POSITIONS LIMITED TO 20% OF THE PORTFOLIO
COUNTRY AND SECTOR LIMITS	+/- 5% OF THE BENCHMARK
CASH LIMIT	10%
COMPANY SIZE CONSTRAINTS	MIN. US$100M MARKET CAPITALISATION
CURRENCY EXPOSURE	UNHEDGED

Fund rating history

NOVEMBER 2023	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

- Large and well-resourced investment team with experience running real estate mandates and 'on-the-ground' presence in key regions.
- The investment team benefits from access to BlackRock's global investment platform.
- The Manager applies a disciplined and valuation-driven investment approach with a clear linkage between the research effort and portfolio construction.
- Well-regarded risk management team and risk monitoring system.

Weaknesses

- The team's co-portfolio manager structure and Investment Committee decision-making process may reduce individual accountability. An off-setting benefit is a reduction in key person risk.
- The Fund has experienced a heightened level of turnover at the analyst and senior levels over the previous 12 months.

Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK	●		
CAPITAL VOLATILITY			●
FOREIGN CURRENCY EXPOSURE		●	
SECURITY LIQUIDITY RISK	●		
SECURITY CONCENTRATION 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 Global Real Estate Securities Fund ('the Fund') is an actively managed, long-only global property product. The Fund seeks to provide total returns (income and capital growth) above the FTSE EPRA/NAREIT Developed Index Net TRI $A ('the Benchmark') on a rolling three-year basis, with an ex-ante Tracking Error of 0-5% p.a.
- BlackRock ('the Manager') believes bottom-up, fundamental research is critical to identifying high-quality investment opportunities. The investment style of the Fund is 'core' with a focus on 'mispriced' real estate securities that are likely to face a catalyst for a price correction over the short-to-medium term.
- The Fund typically holds between 60 and 90 stocks and Tracking Error is managed within the range of 0-5% p.a. over rolling three-year periods. The approach is considered 'benchmark aware' with regional, sector and stock allocations limited to within +/-5% of the Benchmark.
- The Fund is permitted to invest in non-benchmark companies, however, the aggregate of these securities is limited to 20% of the portfolio. Further, cash is limited to 10% of the portfolio, although it is expected that the Fund will remain fully invested. Turnover is expected in the range of 75-100%.
- The Fund's PDS dated 24 July 2023 disclosed Annual Fees and Costs ('AFC') totalling 0.79% p.a. This value comprises (1) Management Fees and Costs of 0.65% p.a. and Net Transaction Costs of 0.14% 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. The Fund does not charge a Performance Fee.
- The Fund may charge buy/sell spreads but these are currently 'nil'. These spreads can be subject to change, most notably during periods of market volatility, and can be sourced from the Manager's website.

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 the Responsible Entity's Design and Distribution Obligations 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 is a global property securities product and as such will generally sit within the 'growth' component of a balanced portfolio. It is suitable for mid-to-high risk profile investors with at least a five-year investment time horizon.
- The Manager will seek to invest in listed property securities that deliver reliable long-term cash flows, however, the Fund's returns are also subject to equity market risk, which means that movements (both positive and negative) in the share prices of the underlying securities in the portfolio will affect the Fund's returns. Investors should therefore be aware that the Fund may experience periods of negative returns and that there is a risk of potential capital loss being incurred on their investment.
- The Fund is currency unhedged, which means investors will face foreign currency exposure. That said, currency exposures at a portfolio level are hedged to Benchmark weights to mitigate deviation risk. Fluctuations in foreign currency can have both a positive and negative impact on the investments of the Fund.

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

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

Lonsec Opinion of this Fund

People and resources

- The Manager's Global Real Asset Securities ('GRAS') team is responsible for the management of the Fund. The team consists of 18 investment professionals and six product strategists across North America, EMEA and APAC, with management responsibilities across a range of global strategies in both real estate and infrastructure. Lonsec considers this to be one of the largest investment teams when compared to peers.
- The Manager employs a co-portfolio manager ('co-PM') structure for the Fund. Rajan Rehan, James Wilkinson and Alastair Gillespie are the co-PMs of the Fund. Each of the three co-PMs are also part of the GRAS Investment Committee ('IC'). Lonsec considers the co-PMs to be seasoned investors and highly experienced in global real estate investing.
- While the portfolio managers are responsible for the day-to-day management of the Fund, the five-member IC within the GRAS team has ultimate responsibility for portfolio decisions, with portfolio managers only permitted to make minor adjustments to the portfolio should time critical issues arise. Lonsec considers such a multi-layered decision-

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NM1223U-3263568-2/8

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making structure may lead to a diminution of individual accountability. Nonetheless, Lonsec acknowledges that succession planning and a cross-pollination of ideas are offsetting benefits.

- Supporting the co-PMs are eight real estate analysts with significant industry experience, albeit still building co-tenure at BlackRock. A sub-set of the broader GRAS team, the analysts are spread across mutliple locations in keeping with the Manager's decentralised structure (New York, London, Singapore and Sydney). Analyst coverage is either split by region or sector, depending on the nuances of real estate markets in each country. Lonsec notes that of the eight real estate analysts, three are purely focused on real estate securities, with the other five covering both real estate and infrastructure securities.

- Over the most recent 12 month period, the GRAS team has seen the departure of two Portfolio Managers (Guy Mackenzie and Qiuting Pan) and two Senior Analysts (James Nevin and Michael Engels). Lonsec views the departures as significant for the GRAS team considering the average experience of the outgoing analysts is over 14 years. Additionally, Lonsec believes the departure of Pan and Nevin from the Asia Pacific region puts considerable strain on the existing GRAS Asia Pacific sub-team. Lonsec will continue to monitor the team dynamic throughout future reviews.

- Lonsec considers that having an 'on-the-ground' presence across key geographies has several benefits for the Fund, including '24-hour' coverage of global markets and the opportunity to develop greater knowledge and insights into local real estate markets.

- The investment team benefits from the Manager's economies of scale and can rely extensively on the support of the broader global firm. This includes enhanced access to company management, use of the proprietary portfolio management system (BlackRock Aladdin), access to the firm's Capital Markets team and centralised dealing desk, Risk and Quantitative Analysis (RQA) team and the Investment Stewardship (BIS) team. This allows the investment team to focus on portfolio management.

- BlackRock operates a multi-faceted remuneration structure and Lonsec considers there to be a reasonable alignment of interests between the investment team and end investors. Staff are remunerated based on both qualitative and quantitative factors. For analysts, quantitative factors are directly linked to alpha and attribution data of stock calls within their coverage. Qualitative factors include engagement in debates, participation in the research process and the rigour of an analyst's research. Senior members of the team are remunerated on a deferred basis in the form of BlackRock equity and common interest in the strategy's performance, which vests over three years.

- Lonsec considers key person risk to be lower given the presence of an IC, the Manager's depth of resources and the consistent research output which drives overall stock selection.

Research and portfolio construction

- Lonsec considers the Fund's investment process to be logical and driven by detailed 'bottom-up' analysis with a strong focus on valuation. While 'top-down' research supports the investment process, the majority of the Fund's alpha is derived from 'bottom-up' analysis and stock selection.

- Lonsec considers the Manager's valuation methodology to be highly standardised and repeatable. Analysts compile detailed financial forecasts and will discount future cash flows by applying a proprietary multi-factor cost of equity model. This model encapsulates analyst views on micro risk factors most pertinent to a business which are separated into six categories: structural risk; asset risk; financial risk; management risk; ESG risk; and other risks.

- All analyst forecasts are aggregated in the Manager's proprietary 'Relative Value Matrix' ('RVM'), which is the primary tool used to drive buy and sell decisions. The RVM calculates the expected alpha of each security in the investable universe, allowing the investment team to easily identify the most attractive investment opportunities from an expected return perspective. A key advantage of this process is the consistency and comparability of valuation metrics used across all regions.

- Lonsec believes there is an appropriate link between the Manager's stock ranking process and portfolio construction i.e. the major overweight positions are generally the stocks that are the most 'undervalued' and are deemed to be the highest quality. Lonsec highlights that meeting with various levels of company management and regular asset inspections is integral to the research effort. In this regard, Lonsec views the Manager's scale to be an advantage relative to smaller peers.

- Lonsec considers the level of accountability in BlackRock's research and portfolio construction process to be lower relative to peers. While the co-PMs are primarily responsible for the day to-day management of the Fund, Lonsec notes that they only have the authority to make portfolio adjustments of up to 0.5% of the portfolio. Beyond this, portfolio changes of more than 0.5% require a minimum of two votes in favour from the five member IC. This process was established to expedite decision-making for time critical matters, given communication challenges inherent in committee members being located in different time zones. Lonsec highlights while overall accountability rests with the IC, portfolio decisions are still driven by the co-PMs. The main role of the IC is mainly to ensure adherence to the investment process for all investment decisions above 0.5% portfolio weights.

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.

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- 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 'Risk or Value', Managers will determine inclusion based on the balance of overall risk (including ESG risk) and potential return. As a result this approach may mean that lower quality ESG companies may be included if the return potential is sufficient and this may conflict with some clients perception of what a strong ESG process would deliver.

- 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.
  - There are clear signs of defined ESG elements within the research process for the Fund. The process produces a proprietary ESG score which feeds into the overall research process. Research is undertaken in a structured manner although storage and sharing of that research lags leading managers.
  - There are clear links from the Manager's research to the stock selection process through adjustment of the appropriate discount rate based on, among other factors, ESG sores. This adjustment is applied on case by case basis potentially leading to some lack of uniformity in its application.
  - While there is monitoring of ESG characteristics of the portfolio across a number of ESG and sustainability dimensions, this plays a minor role in overall portfolio construction. There are no Portfolio level ESG based limits or targets in place for the fund.
  - The Manager demonstrated a strong engagement program and a structured approach. Engagements are documented with clear objectives set and outcomes tracked. The Manager is able to demonstrate clear ESG based engagement outcomes.
  - Compliance monitoring of ESG factors is well embedded, however, overall transparency

provided to investors is lagging. Pleasingly voting on the Fund is directed by the Fund's portfolio manager directly.

Risk management

- In constructing the portfolio, Lonsec considers the Manager to have appropriate risk limits in place around the Benchmark and notes that positions are monitored daily. BlackRock has a range of proprietary risk analysis models for assessing risk at the underlying fund level. Factors assessed include market variability or beta, size, leverage, interest rate sensitivity, active positioning and industry sizes. The Manager's performance attribution system is also a useful tool in risk management.

- BlackRock's 'Risk & Quantitative Analytics' ('RQA') team utilises proprietary analytics to report on both absolute and relative portfolio risks to the investment team on a daily basis. The investment team also draw on BlackRock's compliance department to run a daily test of the Fund's adherence to investment guidelines. The co-PMs meet with the RQA team formally every six weeks to discuss the portfolio's risk exposures.

- The investment team may utilise derivatives to manage risk and return, including to hedge currency exposures. Derivatives will be backed by cash holdings and/or assets and they will not be used to leverage exposures.

Capacity management

- The Fund was only recently launched and as such, FUM is relatively low at $41.0m as at 31 October 2023. The underlying strategy, which has been managed by the investment team since 2013, has A$2.1b in FUM. Capacity is assessed to be 1% of the market value of the Benchmark, or US$20bn, and therefore, Lonsec does not consider the Fund to have any capacity issues at present.

- Total capacity differs from manager to manager due to variances in investment styles, biases and trading strategies. Lonsec's general view is that greater FUM makes it more difficult to trade in and out of stock positions without material market impact (particularly in smaller stocks). However, there are some inherent advantages to having a large fund including; greater access to management; priority access to deal flow; and bigger dedicated team sizes. Thus, Lonsec carefully weighs up a fund's investment style and objectives when considering the issue of capacity.

Fees

- Lonsec considers the total fee load for the Fund (AFC of 0.79% p.a.) to be below peers, albeit notes the relatively 'benchmark aware' mandate compared to more active peers.

Product

- The Fund is relatively straight forward global property securities strategy that does not pose any meaningful operational challenges to implement. However, it may invest down the market cap spectrum, which may pose some operational and liquidity challenges at times of market dislocation given the daily liquid nature of the Fund.

- Additionally, Lonsec notes that the Fund uses a related-party Responsible Entity ('RE') which may lead to some conflicts that need to be managed over

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time. Lonsec notes this has been well managed over time.

- The current size of the Fund is only $41.0m (October 2023) and given that the Fund recently launched, Lonsec considers it to still be building traction with the wholesale market. However, Lonsec acknowledges the strong support from BlackRock Australia. Hence, while wind-up risk is elevated, it is manageable.

Performance

- The Fund was launched on 24 July 2023 and has a very limited track record. The underlying strategy, however, has been operating for over 10 years, and has produced a track record in line with its objective of benchmark outperformance.

Overall

- Lonsec has provided the Fund with a **'Recommended'** rating. Lonsec considers the investment process to be robust and repeatable and believes the decentralised team structure provides a mix of valuable insights and greater 'on-the-ground' presence. Further, the team benefits from the support of BlackRock's extensive global research platform. Finally, BlackRock's risk management team and risk monitoring system is well-regarded.

- Lonsec notes, however, that the multi-layered decision-making structure for the Fund may lower individual accountability, albeit noting it reduces key person risk. Additionally, the Fund has experienced a heightened level of turnover at the analyst and senior levels over the previous 12 months.

People and Resources

Corporate overview

BlackRock was established in 1988 and is the world's largest asset manager, managing over US$9.1t of funds under management ('FUM') as at 30 September 2023.

The firm employs more than 19,800 professionals and maintains offices in over 38 countries around the world. BlackRock Inc. (NYSE: BLK) has no single majority stockholder and has a majority of external directors.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
JAMES WILKINSON	GLOBAL HEAD OF GRAS	27 / 11
ALASTAIR GILLESPIE	GLOBAL CIO & IC CHAIR OF GRAS	25 / 10
RAJAN REHAN	HEAD OF REAL ESTATE AMERICAS	19 / 11

Team structure

The investment team is comprised of 18 investment professionals. The team operates within a decentralised structure with offices in New York, London, Singapore and Sydney.

Key portfolio management duties are undertaken by the three portfolio managers, Rajan Rehan, James Wilkinson and Alastair Gillespie. All team members provide input in stock research, idea generation and portfolio decisions. Several of the analysts within the team maintain coverage across both listed real estate and infrastructure.

Each of the three co-PMs sit on the five-member Investment Committee ('IC') that assumes ultimate decision-making authority with respect to portfolio changes.

Rajan Rehan is the Head of Real Estate Americas and co-PM of this strategy; he also serves on the IC within Real Asset Securities. Rehan has nearly 20 years of experience and works in BlackRock's New York office. Prior to joining BlackRock, Rehan was a founding member of the real estate securities business at Aviva Investors. Rehan started his career in London, working in the real estate business of M&G Prudential and then Aviva in the strategy, finance, capital markets and asset management.

James Wilkinson is the Head of the GRAS team and co-PM of the Fund; he also serves on the IC within Real Asset Securities. Wilkinson has 27 years experience and works out of BlackRock's London office. Prior to joining BlackRock in 2013, Wilkinson was a fund manager at Thames River Capital where he worked on a range of traditional long only and long/short real estate securities funds. Wilkinson also worked at Henderson Global Investors as a member of the European real estate securities team.

Alastair Gillespie is the CIO of the GRAS group and co-PM of the Fund; he also serves as Chair of the IC. Gillespie has over 25 years experience and works from BlackRock's Sydney office. Prior to joining BlackRock in 2013, Gillespie was with Principal Global Investors where he was a Singapore based managing director and co-global portfolio manager, with responsibilities for the firm's global, Asia Pacific and domestic Australian real estate capability.

The IC is comprised of Chairman of Real Asset Securities, Mark Howard-Johnson; Global Head of Real Asset Securities, James Willkinson; Global CIO, Alastair Gillespie; Head of Real Estate Securities Americas, Rajan Rehan; and Head of Listed Infrastructure, Nikhil Uppal. Members of the IC are seasoned infrastructure investors with an average industry experience of 26 years.

Remuneration / alignment of interests

Remuneration for Portfolio Managers and analysts consists of a market competitive base salary and bonus component. For the Portfolio Managers, the variable component of their remuneration is allocated with regard to the overall performance of the global real estate securities product. Analysts' variable remuneration is allocated based on an assessment against a range of qualitative and quantitative criteria, including engagement in the team-based process, the quality of security analysis and the development of investment ideas. The more senior members of the investment team are remunerated on a deferred basis in the form of equity in the Manager and a common interest in the strategy's overall performance, vested over three-year periods.

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Research Approach

Overview

RESEARCH PHILOSOPHY	FUNDAMENTAL
NO. STOCKS IN UNIVERSE	650
NO. STOCKS FULLY MODELED / RESEARCHED	650
RESEARCH INPUTS	VARIOUS – COMPANY DOCUMENTS, MANAGEMENT MEETINGS, SELL-SIDE REPORTS ETC.
BROKER RESEARCH	MINIMAL
VALUATION OVERVIEW	DCF

The Manager's fundamental research approach seeks to identify the most attractive global property securities from a valuation perspective. The Manager broadly defines broad universe to include all listed equity securities that have a majority of their economic factor exposure coming from real estate and real estate-related activities in both developed and emerging markets.

Due diligence is conducted on individual securities, which includes, management meetings, asset inspections, financial modelling and macro forecasts. Coverage is split between analysts by either geography or sector depending on the characteristics of investment markets in which analysts are located. The investment team benefits from insights from other departments within BlackRock, such as the BlackRock Investment Institute and the Equities, Fixed Income and Multi-Asset teams.

The primary valuation tool used by the team is a three-stage DCF framework. Free cash flow ('FCF') to equity is modelled over five years, followed by an estimated five-year growth rate and a terminal growth rate. FCF to equity takes into consideration a firm's capital structure of financing for growth capital expenditure. FCF forecasts are driven by the team's assessment of capital value growth, acquisitions, disposals, developments and any changes to the FCF generation potential of a company as a result of all these activities. Estimated FCF is discounted by the Manager's proprietary multi-factor risk model, which incorporates a risk-free rate, market risk premium and an assessment of the following factors: structural risk, asset risk, financial risk, management risk, ESG risk and other risks.

The Manager's proprietary valuation tool, the 'Relative Value Matrix' ('RVM'), aggregates analyst forecasts and provides a high-level view of the most attractive securities from an expected alpha perspective.

Portfolio Construction

Overview

FUND BENCHMARK	FTSE EPRA NAREIT DEVELOPED INDEX NET TRI (AUD)
INTERNAL RETURN OBJECTIVE	TO PRODUCE EXCESS RETURNS OF 2% P.A. OVER THE FTSE EPRA NAREIT DEVELOPED INDEX NET TRI (AUD)
INTERNAL RISK OBJECTIVE	MAXIMUM TRACKING ERROR OF 0-5% OVER THREE YEAR PERIODS
PORTFOLIO APPROACH	INDEX AWARE
INVESTMENT STYLE	CORE / STYLE NEUTRAL
PORTFOLIO DECISION MAKING	INVESTMENT COMMITTEE
STOCK SELECTION	FUNDAMENTAL
TOP-DOWN INFLUENCE	10%
TYPICAL NUMBER OF HOLDINGS	60-90
EXPECTED PORTFOLIO TURNOVER	75-100%
TYPICAL ACTIVE SHARE	45-55% P.A.
TYPICAL PORTFOLIO EXPOSURE IN 'TOP 10' HOLDINGS	30-40%

Decision making

Portfolio decisions are made by the BlackRock Real Asset Securities Investment Committee ('IC') and require two votes in favour to be actioned. A formal review of the strategy by the IC occurs weekly. Whilst the PMs maintain responsibility for the day-to-day management of the Fund, they also have the authority to make minor alterations to the portfolio without the consent of the IC (trades up to 0.5% of the portfolio).

Buy / sell drivers

The RVM drives all buy / sell decisions. The team actively monitor the RVM, seeking positions with the greatest expected alpha. Stocks may be sold as they reach valuation targets and appear less attractive compared with other securities, there has been a break in the underlying thesis, or when there is deemed to be a more appropriate investment alternative.

Risk Management

Risk limits

SEPARATE RISK MONITORING	YES
STOCK LIMITS	+/-5% OF THE BENCHMARK
SECTOR LIMITS	+/-5% OF THE BENCHMARK
COUNTRY LIMITS	+/-5% OF THE BENCHMARK
CASH LIMIT	MAX. 10%

The Fund is relatively constrained in comparison to some sector peers, with tight limits on stock, sector and country allocations. Ex-benchmark positions are expected to be limited to 20% of the portfolio. The Manager intends to generate the majority of the Fund's risk through bottom-up stock selection.

Risk monitoring

The RQA, an internal group with a separate reporting line to investment teams, provides portfolio analysis and is responsible for designing and implementing BlackRock's risk management framework. The RQA analyses the Fund regularly, providing the co-portfolio managers with a range of reports covering risk factors, stress testing, correlation analysis and attribution.

Both pre- and post-trade compliance is performed within the Aladdin system, BlackRock's proprietary risk

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analytics platform. In particular, the Risk Dashboard, a key RQA output that tracks multiple risk metrics and portfolio behaviour is reviewed by the co-portfolio managers together with the RQA on a daily basis. The co-portfolio managers meet with the RQA team formally every six weeks to discuss the Fund in detail.

Risks

An investment in the Fund carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers major risks to be:

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). Economic, technological, political, legal and market conditions in countries in which the Fund has investments are variable, particularly in developing countries and emerging markets. Changes in these factors can have a negative influence on the value of each Fund's investments.

Derivatives

The Manager has scope, via its PDS, to implement various derivative strategies with the objective of mitigating or creating exposure to 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. The Manager does not intend to use derivatives for speculative purposes or to leverage the Fund.

Currency

The Fund predominantly invests in assets that are denominated in non-A$ currencies. A rise in the relative value of the A$ vis-à-vis the currencies in which the assets are denominated will negatively impact the market value of the assets (and vice versa) from an Australian investor's perspective.

Quantitative Performance Analysis

The Product commenced on July 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.

Lonsec

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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

About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

Analyst Disclosure and Certification

Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the Analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the matters and financial product(s) to which this document refers.