Product Assessment

Report as at 07 Mar 2024

Zenith RECOMMENDED INDEX

iShares Core Global Corporate Bond (AUD Hedged) ETF

Rating issued on 07 Mar 2024 | Exchange Code: IHCB

Investment objective

To provide investors with the performance of an index, before fees and expenses (including the cost of hedging), composed of investment grade corporate fixed rate bonds issued by corporations in emerging and developed markets worldwide (hedged to Australian dollars). Distributions are paid tri-annually.

Manager	BlackRock Investment Management (Australia) Limited
Distributor	iShares
Sector	International Fixed Interest \ Corporate Debt
Investment Style	Index - Traditional
RI Classification	Traditional
Absolute Risk	Moderate
Relative Risk	Index
Investment Timeframe	5-6 Years
Benchmark	Bloomberg Global Aggregate Corporate Bond Index $A (Hdg)
Min Investment Amount	-
Redemption Frequency	Daily
Income Distribution	-
Fund Size (31 Jan 2024)	$304.15M
Management Cost	0.26% p.a. Incl. GST
Performance Fee	N/A
Buy / Sell Spread	N/A
Inception Date	31 Jan 2016

Fund facts

- Seeks to produce a gross return consistent with that of its benchmark
- Implements a stratified sampling approach, with a focus on cost-efficient execution
- Income distribution advantages due to TOFA election

Viewpoint

The Fund is an Exchange Traded Fund (ETF) managed by BlackRock Investment Management (Australia) Limited, that provides cost efficient exposure to a diversified portfolio of global investment grade corporate bonds. Implementing a stratified sampling approach to portfolio construction, BlackRock seeks to balance its objectives of replicating index performance while minimising transaction costs. In Zenith opinion, BlackRock's stratified sampling is a compelling approach, with BlackRock possessing strong capabilities in the index-orientated strategy space to undertake the process in a cost effective way.

BlackRock is publicly listed and employs approximately 19,800, staff located in 38 countries across the world. As at 31 December 2023, BlackRock managed approximately $US 10.01 trillion in funds under management (FUM), with $US 6.62 trillion in passive investment solutions, including the Fund.

Responsibility for the Fund rests with BlackRock's London-based Core Portfolio Management (CPM) team, which comprises over 30 members, with team members split according to investment function (i.e. portfolio management, strategy, credit research and risk management) and area of expertise (including Rates & Inflation, Credit & Multi-Sector, Technology and Core PM Architecture).

Leading the team is John Hutson, Managing Director, is the Head of Indexed Fixed Income Portfolio Management in EMEA. As business lead, Hutson is responsible for BlackRock's Systematic Fixed Income portfolios, across EMEA, including executing business and product priorities, and oversight of the CPM team.

In targeting an index return, BlackRock does not hold all securities within the benchmark. Rather, BlackRock seeks to achieve a commensurate total return by implementing a systematic process that focuses on key factor exposures (i.e. duration, spread) as a means of index replication. Referred to as 'stratified sampling', this approach is focused on identifying common risk factors and grouping these into like buckets such as maturity, sector, credit quality and industry.

Portfolio construction is largely systematic and relies heavily on BlackRock's proprietary systems to develop an understanding of the underlying risk and return drivers of each bucket. The team will then select a sample of eligible securities that when combined, reflect the overall characteristics of the index. BlackRock also uses a number of tools to minimise transaction costs. Included amongst these are electronic trading platforms, internal crossing networks and exchange-traded interest rate derivatives.

The Fund gains market exposure via investment in the Dublin listed iShares Global Corporate Bond UCITS ETF (the Underlying ETF), which was launched in November 2012. It should be noted that due to this interfunding structure, BlackRock previously used the last closing price of the Underlying ETF for the purposes of pricing the local ETF. This resulted in a variation between these two prices (reflecting factors such as time-zone differences and movements in exchange rates) which translated into higher Tracking Error at the Fund level. Effective 6 December 2023, BlackRock began using the NAV of the Underlying ETF, as opposed to the closing price. Consequently, moving forward, Zenith expects Tracking Error to tighten and become more comparable to an ETF that holds direct securities.

BlackRock has made an election under the Taxation of Financial Arrangements (TOFA), that allows the Fund to match gains/losses from foreign exchange hedges to gains/losses of the Fund's assets. The key benefit to investors from this election is that distributions will exhibit less volatility.

Fund analysis

Fund characteristics

Constraint	Value
Tracking Error (% p.a.)	N/A

Investment objective and philosophy

The underlying ETF seeks to match the return profile of the Bloomberg Global Aggregate Corporate Bond Index ($A Hedged) before fees, less interest withholding taxes, and the cost of currency hedging.

BlackRock's passive investment process is guided by its philosophy which is focused on Total Performance Management. This states that in order to achieve the Fund's return objective, risk must be understood and adequately compensated while concurrently taking transaction costs into consideration. Furthermore, it is essential that portfolio managers have a detailed understanding of the benchmark, its core characteristics, potential index changes and the issuance of new securities. This in turn necessitates detailed portfolio analysis, benchmark research in support of portfolio construction, and established trade execution processes.

In targeting an index return, BlackRock does not seek to hold all securities within the benchmark. Whilst it is acknowledged that a full replication approach can produce optimal Tracking Error results, it will also lead to a rise in transaction costs relative to alternative methods. Accordingly, BlackRock adopts a 'stratified sampling' approach to portfolio construction, with the aim of producing a commensurate total return through the replication of factors and characteristics of the benchmark.

Zenith believes BlackRock applies a comprehensive approach to passive investment, effectively leveraging key business units and sophisticated risk management infrastructure. Furthermore, Zenith views this approach as highly systematic and well considered, with a strong focus on the balance between risk and transaction costs.

Portfolio applications

Bonds are longer-dated fixed income securities that seek to provide investors with a regular income stream and the return of capital at a predefined future date. Bonds can form a key component of an investor’s portfolio and more specifically their exposure to the fixed interest asset class, owing to the defensive characteristics that they often exhibit.

An inverse relationship exists between the price of bonds and interest rates, the extent of which is not linear and varies according to existing market conditions and the perception of risk. Bonds generally exhibit a negative correlation with equities and will rise in price when growth assets are falling (and vice versa). Bonds are more likely to be favoured during times of heightened risk aversion and typically dampen investment portfolios against capital drawdowns.

The Fund provides exposure to a diversified portfolio of global investment grade corporate bonds. Implementing a stratified sampling approach to portfolio construction, an alternative to full replication methods, the Fund is designed to produce risk/return outcomes that largely mirror the Bloomberg Global Aggregate Corporate Bond Index (AUD Hedged). The Fund is likely to be popular amongst cost-sensitive investors and those seeking a fixed interest product whose total returns are likely to be more heavily influenced by income.

Traditionally, realised gains or losses from currency hedging forward contracts can impact distribution returns, meaning distributions can be volatile if there are significant FX hedge gains or losses accruing in a Fund. However, BlackRock have made an election under the Taxation of Financial Arrangements (TOFA), that allows the Fund to match gains/losses from foreign exchange hedges to gains/losses of the Fund's assets. Given this, the key benefit to investors is that distributions will exhibit less volatility.

From a portfolio perspective, the Fund may be suitable as an allocation within the income component of a well-diversified portfolio, and could be funded from an investor's global fixed interest exposure.

Due to the anticipated moderate levels of volatility and the potential for capital loss, Zenith recommends taking a medium-term investment time frame. It is not deemed suitable for investors with short-term liquidity needs.

Income distribution frequency for the Fund is Triannual.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Traditional
Has Responsible Investment Policy	Yes
PRI Status	
PRI Signatory	Yes

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

Absolute performance

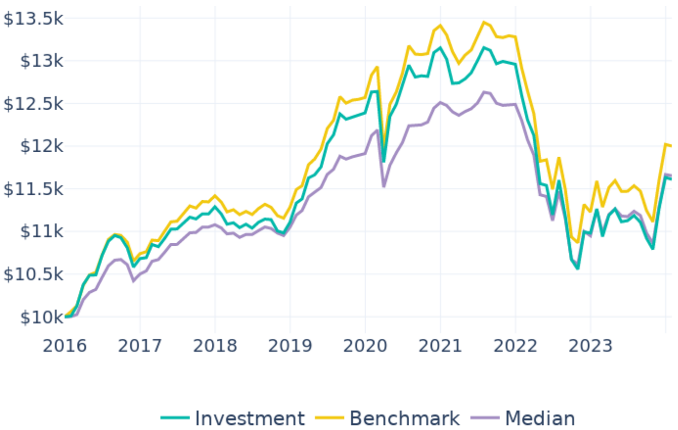
Performance as at 31 Jan 2024

Monthly performance history (%, net of fees)

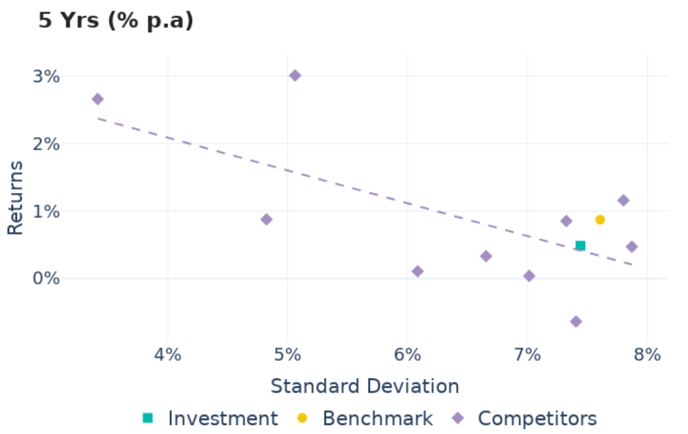
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	-0.19%												-0.19%	-0.16%
2023	2.57%	-2.88%	2.29%	0.65%	-1.33%	0.12%	0.54%	-0.71%	-1.69%	-1.19%	4.45%	3.21%	5.93%	7.05%
2022	-2.82%	-2.26%	-1.50%	-4.65%	-0.18%	-2.98%	3.63%	-3.63%	-4.56%	-1.07%	4.14%	-0.11%	-15.26%	-15.45%
2021	-1.01%	-2.18%	0.05%	0.36%	0.58%	1.09%	1.17%	-0.24%	-1.19%	0.21%	-0.10%	-0.16%	-1.46%	-0.99%
2020	1.98%	0.04%	-6.57%	4.56%	1.15%	1.86%	1.77%	-1.08%	0.11%	-0.06%	2.18%	0.42%	6.15%	6.71%

**Bloomberg Global Aggregate Corporate Bond Index $A (Hdg)*

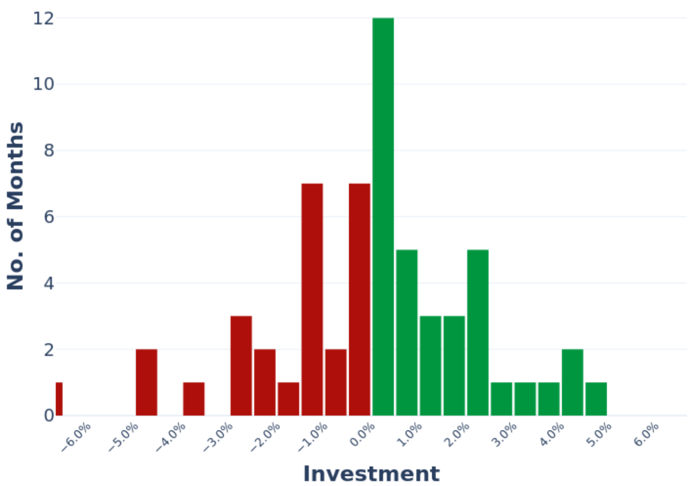
Growth of $10,000



Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)

Absolute performance analysis

Instrument	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Investment	3.08%	-3.74%	0.49%	1.18%	1.86%
Benchmark	3.53%	-3.37%	0.87%	1.57%	2.28%
Median	3.51%	-2.25%	0.81%	1.45%	1.91%
Cash	3.96%	1.82%	1.43%	1.55%	1.62%

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	9 / 11	9 / 10	6 / 9	4 / 7
Quartile	4th	4th	3rd	2nd

Absolute risk

Instrument	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Standard Deviation (% p.a.)					
Investment	7.07%	7.64%	7.44%	6.45%	6.21%
Benchmark	7.06%	7.63%	7.61%	6.57%	6.29%
Median	6.41%	6.60%	6.07%	5.22%	4.99%
Downside Deviation (% p.a.)					
Investment	3.85%	5.83%	5.43%	4.65%	4.41%
Benchmark	3.71%	5.71%	5.58%	4.76%	4.49%
Median	3.34%	4.78%	4.45%	3.78%	3.58%

Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Sharpe Ratio (p.a.)					
Investment	-0.12	-0.73	-0.13	-0.06	0.04
Benchmark	-0.06	-0.68	-0.07	0.00	0.11
Median	-0.07	-0.62	-0.10	-0.02	0.06
Sortino Ratio (p.a.)					
Investment	-0.23	-0.95	-0.17	-0.08	0.06
Benchmark	-0.12	-0.91	-0.10	0.00	0.15
Median	-0.13	-0.85	-0.14	-0.03	0.08

NOTE ON PERFORMANCE - Performance data contained in this report is based on an ETFs end of day Net Asset Value (NAV) as opposed to the last market price. Zenith has elected to use NAV over last price as this eliminates extraneous trading noise which typically occurs at the end of the trading day. While we see this as a cleaner approach to assessing ETF performance, readers should be aware that actual performance of an ETF may differ depending on the timing of investment and divestment of holdings.

All commentaries are as at 31 January 2024.

The Fund aims to match the total return of the Bloomberg Barclays Global Aggregate Corporate Bond Index before fees and expenses.

The Fund's performance has been broadly consistent with that of the benchmark.

Relative performance

Excess returns

Statistic	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Excess Return	-0.45%	-0.37%	-0.39%	-0.38%	-0.42%
Monthly Excess (All Mkts)	33.33%	36.11%	41.67%	40.48%	40.21%
Monthly Excess (Up Mkts)	50.00%	40.00%	44.12%	39.58%	41.38%
Monthly Excess (Down Mkts)	16.67%	33.33%	38.46%	41.67%	38.46%

Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Downside Capture	105.08%	99.36%	97.91%	98.85%	99.94%
Upside Capture	99.60%	94.56%	94.22%	94.67%	95.29%

Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Investment	0.68%	1.24%	1.19%	1.04%	1.02%
Median	0.72%	1.40%	2.00%	1.75%	1.69%

Information ratio

Instrument	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Investment	-0.66	-0.30	-0.32	-0.37	-0.41
Median	-0.03	0.80	-0.03	-0.07	-0.22

Beta statistics

Statistic	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Beta	1.00	0.99	0.97	0.97	0.97
R-Squared	0.99	0.97	0.98	0.98	0.97
Correlation	1.00	0.99	0.99	0.99	0.99

All commentaries are as at 31 January 2024.

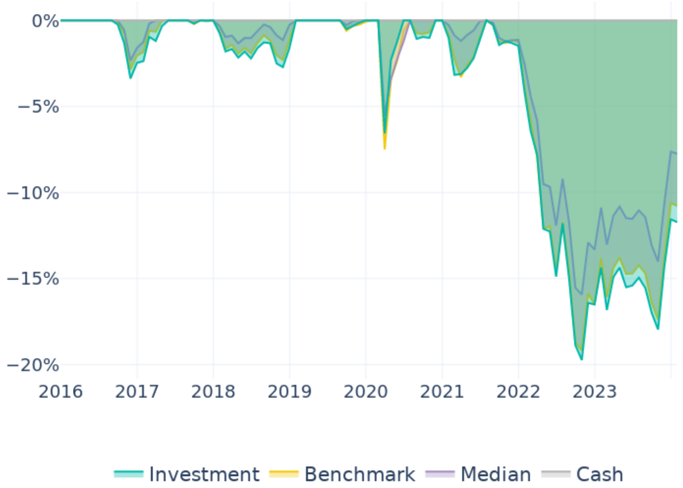
The Fund's tracking error has been relatively high over the short-term, reflecting its stratified sampling approach and interfunding structure whereby the Fund gains market exposure via investment in the UK listed iShares Global Corporate Bond UCITS ETF (the Underlying ETF), which was launched in 2012.

It should be noted that due to this interfunding structure, BlackRock previously used the last closing price of the Underlying ETF for the purposes of pricing the local ETF. This resulted in a variation between these two prices (reflecting factors such as time-zone differences and movements in exchange rates) which translated into higher Tracking Errors at the Fund level. Effective 6 December 2023, BlackRock began using the NAV of the Underlying ETF, as opposed to the closing price.

Moving forward, we expect the Tracking Error to tighten and become more comparable to an ETF that holds direct securities.

Drawdown analysis (since inception)

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.



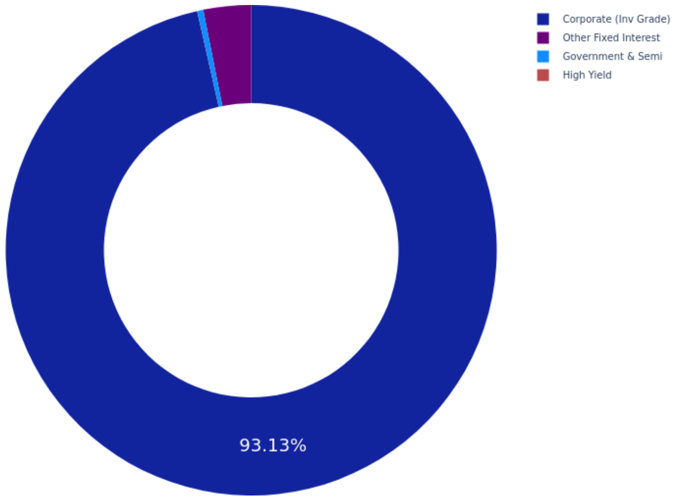
All commentaries are as at 31 January 2024.

The Fund has exhibited a drawdown profile broadly consistent with that of the benchmark.

Product Exposures

Holdings as at 31 Dec 2023

Fixed interest sector holdings



Fund commentary

Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

Performance risk: In the management of the Fund, BlackRock does not seek to fully replicate the index (by holding) and by consequence there is a risk, albeit small, that the Fund produces a return below that of its targeted benchmark when viewed on a gross of fees basis.

Tracking error risk: As an index replication strategy, a key risk facing the Fund is incurring excessive Tracking Error, the existence of which may see Fund performance deviate from that of its targeted benchmark.

An ETF may lag its underlying tracked index as a result of the ETF price not matching the movements in the index. This may be caused by large institutional trades which can move the ETF price away from its Net Asset Value (NAV). This risk should be broadly mitigated by the Authorised Participants, who in their capacity as market makers, will aim to remove these mismatches in prices. In addition, ETFs have a unique feature that allows large institutional orders to access the NAV of the underlying fund by an in-specie transfer which removes a market impact for large flows.

Security/asset selection

The Fund's investment universe consists of all securities eligible for inclusion in the Bloomberg Global Aggregate Corporate Bond Index. Security selection is primarily driven by the index and BlackRock's quantitatively based stratified sampling process which seeks to replicate the factor exposures comprising the index. This is achieved by dividing the benchmark based upon specific characteristics including maturity, sector, credit quality and industry.

Given the nature of the strategy, security selection plays a limited role in achieving the Fund's objective. Notwithstanding this, the use of stratified sampling in certain segments of the market, particularly in the corporate sector, enables BlackRock to add value by applying a judgemental overlay. In deciding on which securities to purchase, or which to exclude, the domestic team leverages the extensive fundamental research available through BlackRock's global network of credit analysts. While there appears to be some discretion in security selection, it should be noted that this process occurs within a limited framework and is not permitted to have a material influence on the portfolio's overall risk/return profile.

Historically, BlackRock has shown an ability to add incremental return through security selection. Pleasingly, this has been without disproportionately altering the Fund’s risk profile, a factor we attribute to the risk-controlled framework that BlackRock has in place.

Index Construction

Bloomberg Global Aggregate Indices are constructed to measure the risk and return characteristics of the global fixed income markets. In creating individual indices, security attributes are evaluated to determine whether a bond will be index eligible. While the threshold for inclusion varies from index to index, most benchmarks evaluate a core set of common attributes. These include, but are not limited to: currency, sector, credit quality, amount outstanding, time to maturity and country.

Index inclusion of individual securities and the application of published index rules are determined by clearly defined, published eligibility criteria. Index rules are continually monitored and reviewed by Bloomberg through a formal governance process that seeks stakeholder feedback to ensure they remain relevant and representative of asset class changes in an evolving market. While the eligibility criteria of specific indices will vary, all benchmarks adhere to prudent index construction standards and guidelines. Most importantly, Bloomberg Barclays benchmarks are rules-based, objective and transparent.

Responsible investment approach

BlackRock has an established Responsible Investment Policy (RIP) that was last updated in March 2023. Compliance with the RIP is monitored by BlackRock's Sustainable Investment Team alongside BlackRock's Risk and Quantitative Analysis (RQA) Team. BlackRock has advised that for the 12 months to 31 December 2023, there have been no material breaches of its RIP globally.

BlackRock has been a signatory to the United Nations Principles for Responsible Investment (PRI) since 2008.

BlackRock has established a number of formal committees tasked with the development and monitoring of group-wide ESG policies. Furthermore, BlackRock has added resourcing in the area of technology, with the goal of improving ESG related reporting. An example of this is the addition of issuer-level ESG data into their internal risk management system, Aladdin.

Zenith has assigned the Fund a Responsible Investment Classification of Traditional.

Portfolio construction

As detailed earlier, BlackRock employs a quantitatively-based stratified sampling process, focusing on key factor exposures as a means of index replication.

Under this approach, components of the index are grouped into a number of buckets, each defined by common characteristics such as maturity, sector, credit quality and industry. The team then use BlackRock's proprietary software to develop an understanding of the underlying risk and return drivers of each bucket and collectively the index. BlackRock will then select a sample of eligible securities that when combined, reflect the overall characteristics of each bucket. This approach seeks to achieve a consistent balance between producing low Tracking Error while keeping transaction costs to a minimum.

While BlackRock's stratified approach is expected to achieve controlled Tracking Error outcomes, the team also has the flexibility to generate incremental outperformance from security selection decisions. While this discretion is tightly monitored, where securities in the same bucket exhibit relative value or fundamental differences, the portfolio managers may tilt the portfolio to the more attractive issuers.

Other sources of return enhancements and cost minimisation strategies available to BlackRock include:

- Buying new issues in the primary market that are expected to be included in the index
- Holding bonds to maturity
- Maintaining different weighted security exposures to a particular issuer in order to achieve an efficient cumulative position, and
- Crossing trades between BlackRock funds where possible.

The Fund seeks to fully hedge currency exposures back to AUD. BlackRock employs a monthly static hedging process whereby the portfolio is hedged using rolling one-month forward contracts. In the interest of keeping transaction costs to a minimum, BlackRock will not adjust the currency hedge to reflect changes in the position over the month. While this strategy will on occasion result in an imperfect currency hedge, Zenith notes that it is reflective of standard market practices.

Zenith believes the combination of technology and team experience places BlackRock in a favourable position to deliver upon targeted portfolio outcomes.

Risk management

Given the nature of the strategy, risk is primarily viewed from a benchmark relative perspective. Specifically, BlackRock focuses on managing Tracking Error, in order to minimise the volatility of returns relative to the benchmark.

BlackRock uses several tools to both analyse and manage the risks inherent in its strategy. Key among these tools is BlackRock's Aladdin portfolio construction, risk management and trading software. Given the portfolio is managed utilising a stratified sampling approach, BlackRock uses the software to analyse and decompose the risks of all intended trades. The inbuilt multi-factor risk models help in assessing and removing inadvertent biases from the portfolio and ensures that the realised total risk of the Fund closely mirrors that of the benchmark.

Zenith notes that formal constraints or guideline ranges are not used for risk measures such as Tracking Error or relative weights on securities or GICS exposures. Rather, BlackRock does utilise Tracking Error and Tracking Difference as key staff KPIs. Ideally Zenith would prefer to see greater formalisation and transparency on this issue as we believe that in a process driven system, guidelines and constraints are an integral part of deriving successful outcomes. However, we acknowledge that the practical linkage of these measure to staff KPI's does provide an incentive to minimise slippage.

Zenith believes BlackRock benefits greatly from one of the most advanced technology platforms in its peer group. This enables the investment team to have a comprehensive understanding of the inherent risks in the portfolio.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	0.31% p.a.	0.48% p.a.
Management Fees and Costs	0.26% p.a.	0.46% p.a.
Transaction Costs	0.05% p.a.	0.02% p.a.
Performance fees as at 30 Jun 2023	0.00%	0.00%
Performance fees description	N/A	
Management Cost	0.26% p.a.	0.48% p.a.
Buy / Sell spread	N/A	0.12% / 0.14%

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

ETFs contain a variety of explicit and implicit costs to the investor. Investors should be aware that poor ETF selection and/or trade execution can diminish any advantage gained by the lower management cost exhibited by ETFs in comparison to managed funds.

Management Costs

Zenith believes the cost structure of the Fund is competitive, noting the cost level is below the peer group average. Investors should also take into account brokerage costs incurred in addition to management costs.

Bid/ask spread

As listed products, investors are exposed to bid/ask spreads as an intangible cost of investment and divestment. The bid/ask spread is primarily a function of market liquidity in fund units as well as the presence of the maximum bid/ask spreads that are maintained by authorised participants and market makers.

It should be noted that, as a safeguard in the absence of a natural market in which two investors are transacting in the Fund, market makers ensure the maximum spread is limited to a pre-agreed spread limit. However, it is important to note that bid/ask spreads tend to be at their highest and most volatile at the start and end of the trading day, decreasing during the course of the day’s trade as efficiency improves.

Zenith notes the spread between the unit price of the unquoted unit trust and the quoted unit trust has the potential to materially widen under certain market conditions. However, we expect this to be a rare occurrence.

(The fees mentioned above are reflective of the flagship version only and may differ when the product is accessed through an alternate investment vehicle such as a platform).

About the fund manager

Organisation

BlackRock was established in 1988 as the investment management group within the private equity firm Blackstone

Group. Following a number of ownership changes, BlackRock merged with Merrill Lynch Investment Management (MLIM) while retaining the BlackRock name. In 2009, BlackRock acquired Barclays Global Investments (BGI) and merged the two businesses. In January 2024, BlackRock also announced that it had entered into an agreement to acquire Global Infrastructure Partners (GIP), the world's largest independent infrastructure manager. It is anticipated that the transaction be will completed in the second half of 2024.

BlackRock employs approximately 19,800 staff located in 38 countries, with approximately $US 10 trillion in funds under management, as at 31 January 2024.

In a global context, BlackRock dedicates significant resources to the management of its range of index-orientated fixed income strategies, with passive operations remaining a core business and contributor to overall group earnings. An industry leader within the indexing space, BlackRock enjoys considerable benefits of scale, aiding trade execution and cost minimisation. With a long track record in the management of this style of investment, Zenith continues to retain high regard for BlackRock's capability in this market segment, noting the organisations well-established record in managing passive style investment strategies.

As at 31 December 2023, BlackRock was managing approximately $US 6.62 trillion was managed in a passive fashion. As at the same date, the net asset value of the Fund was $A 304.47 million.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
John Hutson	Head of EMEA Systematic & Index Fixed Income Core Portfolio Management	22	12	London, UK
Divya Manek	Senior Portfolio Manager & Head of Investment Grade Credit & Emerging Market Debt, Indexed Fixed Income in EMEA	16	4	London, UK

The management of BlackRock's passive portfolios (comprising both index and ETF) rests with its Core Portfolio Management (CPM) team which is co-located across San Francisco and London. This business unit sits within BlackRock's broader global fixed income team which comprises over 400 investment professionals spread across a broad range of geographies, market segments and specialisations.

Responsibility for the Fund rests with BlackRock's London-based CPM team, which comprises over 30 members, each of whom are split according to investment function (i.e. portfolio management, strategy, credit research and risk management) and area of expertise (including Rates & Inflation, Credit & Aggregate and Core PM Architecture).

Leading the team is John Hutson, Head of EMEA Systematic & Index Fixed Income Core Portfolio Management. As business lead, Hutson is responsible for BlackRock's Systematic Fixed Income portfolios, across EMEA, including executing business and product priorities, and oversight of the CPM team.

With respect to the management of the strategy, Francis Rayner, Senior Portfolio Manager, is responsible for its day-to-day management, with strong support provided by specialist divisions that aid with cash flow management and currency hedging. In terms of the former, this rests with BlackRock's APAC ETF & Index Investment business (APAC EII) under the leadership of Jane Kim (Head of Asia Pacific ex Japan Portfolio Management) - this team manages cash flows across all Australian domiciled ETFs (ex the Australian FI and cash ETFs). Currency hedging is managed by BlackRock's US EII business based in San Francisco.

In Zenith's opinion, team members possess the experience and skill necessary to effectively manage the Fund. Furthermore, given BlackRock's considerable resourcing and existence of a systematic (and repeatable) investment process, we do not consider key person risk to be an issue in the management of the Fund.

About the sector

Sector characteristics

The Zenith International Fixed Interest – Corporate Debt sub-sector consists of all long only funds investing in the Global Fixed Interest markets, with a focus on Corporate Debt. The sector incorporates both benchmark aware and benchmark unaware strategies. Managers typically add value through sector positioning and security selection.

Zenith benchmarks all funds in this category against the Bloomberg AusBond Bank Bill Index, which may or may not be reflective of the underlying benchmark used by each respective manager. It should be noted that the Bank Bill index is typically used as a benchmark to measure the investment performance of a passively managed short-term cash portfolio. The Index has an average term to maturity of approximately 45 days, comprising of 13 bank bills of equal face value, each with a maturity seven days apart.

As funds in the International Fixed Interest – Corporate Debt sub-sector typically invest in longer dated corporate securities, they may display far greater downside volatility relative to the Bloomberg AusBond Bank Bill Index, i.e. while the index is used as a performance benchmark, it's not representative of the risks involved in investing in international Corporate Debt markets.

Sector risks

Funds within the International Fixed Interest – Corporate Debt sub-sector are exposed to the following broad risks:

Market risk: Changes in economic, technological, environmental or political conditions and market sentiment may lead to a decline in general security prices and overall market volatility. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously.

Interest rate risk: Fixed interest securities are generally sensitive to changes in interest rates. An increase in interest rates may result in a fall in the value of these securities, while a decrease in interest rates can result in an increase in value.

Credit spread risk: In addition to being sensitive to general interest rate changes, non-government securities are also sensitive to changes in credit spreads (commonly the difference in yield between a government bond and a corporate security). A widening of spreads results in a fall in the value of these securities.

Default risk: Given fixed interest securities represent loans to borrowers (including governments, banks and companies) there is a risk that these borrowers may default on interest or principal repayments. Credit risk is often reflected in credit ratings assigned by various credit agencies, which are subject to change.

Currency risk: In addition to being exposed to general market risk, investments in international markets are exposed to changes in value of the Australian dollar relative to other foreign currencies. This may lead to increased volatility, independent of market moves. While fixed interest funds typically hedge their foreign investments back into Australian dollars, there can be no guarantee that the funds will be hedged at all times or that a manager will be successful in employing the hedge.

Liquidity risk: Fixed interest markets can experience periods of illiquidity, which can result in difficulties in buying or selling securities without adversely impacting the price.

Derivative risk: Derivatives are commonly employed by fixed interest managers to hedge currency and other risks and/or as an alternative to direct purchases or sales of underlying assets. There are multiple risks associated with the use of derivatives; for example, the value of the derivative may not move in line with the underlying asset, counterparties to the derivative may not be able to meet payment obligations or a particular derivative may be difficult or costly to trade.

Administration and operations

Responsible Entity	BlackRock Investment Management (Australia) Limited

Zenith rating

Report certification

Date of issue: 07 Mar 2024

Role	Analyst	Title
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Association & relationship

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Rating history

As At	Rating
07 Mar 2024	Index Recommended
09 Mar 2023	Index Recommended
02 Mar 2022	Index Recommended
27 Oct 2020	Recommended
17 Oct 2019	Recommended

Last 5 years only displayed. Longer histories available on request.

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

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