



# Product Review

## iShares World Equity Factor ETF

ISSUE DATE 12-03-2024

### Key information

FUND MANAGER	BLACKROCK INVESTMENT MANAGEMENT (AUSTRALIA) LIMITED
ASSET CLASS	GLOBAL EQUITIES
SECTOR	GLOBAL LARGE CAP
SUB SECTOR	STRATEGY - PASSIVE
INVESTMENT TYPE	EXCHANGE TRADED FUND ('ETF') LISTED ON THE AUSTRALIAN SECURITIES EXCHANGE ('ASX')
PDS OBJECTIVE	THE FUND FUND AIMS TO PROVIDE INVESTORS WITH THE PERFORMANCE OF THE STOXX DEVELOPED WORLD EQUITY FACTOR INDEX, BEFORE FEES AND EXPENSES
INDEX PROVIDER	STOXX
UNDERLYING INDEX	STOXX DEVELOPED WORLD EQUITY FACTOR INDEX
DERIVATIVE USE	MAY BE USED TO MANAGE RISK AND RETURN, HOWEVER WILL NOT BE USED TO LEVERAGE THE FUND
SECURITIES LENDING	NO
LISTING DATE	OCTOBER 2016
DISTRIBUTION FREQUENCY	SEMI ANNUAL
FUND SIZE	\$156.71M

### Fees & costs (% per annum)

MANAGEMENT FEES AND COSTS	0.35
PERFORMANCE FEE COSTS	0
NET TRANSACTION COSTS	0.05
ANNUAL FEES AND COSTS (PDS)	0.4

WHERE MANAGEMENT FEES & COSTS IS NULL "-" NO DATA HAS BEEN PROVIDED AND THE ANNUAL FEES & COSTS (PDS) CANNOT BE CALCULATED. REFER TO THE PDS FOR THE FEE INFORMATION.

### Daily trading information

TICKER	WDMF
52 WEEK LOW	\$34.79
52 WEEK HIGH	\$42.95
LAST PRICE	\$42.41
LAST NET ASSET VALUE (NAV)	\$42.78
PREMIUM / DISCOUNT TO NAV (DAILY)	-0.009%
AVERAGE DAILY TRADED VOLUME	6,195
AVERAGE DAILY TRADED VALUE	\$257,349.4

### What this Rating means

The **'Recommended Index'** 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

- The Fund provides a passive exposure to a broadly diversified global equities portfolio with a controlled exposure to five factors.
- BlackRock is a leading global manager of passive strategies, allowing investors to enjoy the benefits of their scale, experience and resources.

### Weaknesses

- While the Underlying Index can have modest divergence in sector and country allocations relative to Parent Index, this has the potential to expose investors to some unintended macroeconomic and idiosyncratic risks at times.
- The Fund's Annual Fees and Costs ('AFC') are moderate compared to the peer group.
- The Fund's track record with, and the Underlying Index itself being inception in October 2023, are untested and building a track record of performance.

### Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK	●		
CAPITAL VOLATILITY			●
SECURITY CONCENTRATION RISK		●	
SECURITY LIQUIDITY RISK		●	
FOREIGN CURRENCY 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?

- iShares World Equity Factor ETF ('WDMF' or 'the Fund') provides exposure to a diversified, factor-based and factor-weighted portfolio of global equities. The Fund typically invests in approximately 500 large and mid-cap stocks that display favourable exposure to five target style factors (quality, momentum, value, size and low volatility) subject to constraints. The Fund aims to track the performance of the STOXX Developed World Equity Factor Index ('the Underlying Index') before fees and expenses.
- The Fund is passively managed by iShares by BlackRock ('the Manager') and the Underlying Index is developed by STOXX ('the Index Provider') with collaboration with the Manager.
- The constituents of the Underlying Index is determined by Axioma's portfolio optimisation software. Axioma's optimisation software program provided by STOXX is designed to select a subset of constituents from the STOXX Developed World Index ('the Parent Index'), inception in October 2022, that score well across the five investment factors; quality, momentum, value, size and low volatility. Individual factor scores are determined for each stock in the universe with these then being weighted based on their factor weights to arrive at a composite factor score. The model systematically generates a portfolio favouring those securities with a higher composite score subject to constraints that include variance limits on exposure to sector, country, and to individual securities from the Parent Index.
- The Fund invests in assets that are denominated in various local currencies and is currency unhedged. The returns of the Fund will therefore be impacted directly by fluctuations between the relevant foreign currencies and the Australian dollar.
- The Fund's PDS, dated 5 February 2024, disclosed Annual Fees and Costs ('AFC') totaling 0.40% p.a. This value comprises (1) management fees and costs of 0.35% p.a., and; (2) net transaction cost estimate of 0.05% 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, particularly with respect to net transaction 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 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 'long only', global equity smart beta product designed to provide factor-driven outperformance over the long term with a similar profile and risk to the global market. As such, the Fund will generally sit within the growth component of a balanced portfolio. Lonsec considers it suitable for blending with other global equities strategies, including value, core, absolute return, long-short and small-cap products.
- The Fund is subject to equity market risks and movements (both positive and negative) in the prices of the underlying securities in the portfolio. Investors should, therefore, be aware of and comfortable with the potential for the Fund to experience periods of negative returns which may result in capital losses being incurred on their investment. Lonsec recommends that equity investments are suitable for moderate to high-risk profile investors with an investment time horizon of at least five years.
- It is important to note that the Fund's distributable income is derived from a portfolio of listed assets, and as such, distributions can fluctuate as listed companies are not obligated to maintain a certain level of, nor pay, dividends on a regular basis. This is unlike what is normally associated with traditional income-producing assets (for example, fixed interest).

## 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

- Lonsec notes that the Underlying Index changed on the 5th of February 2024.

## Lonsec Opinion of this Fund

### People and resources

- BlackRock is a global leader in ETFs with over 1,300 iShares ETFs listed globally. Further, BlackRock also had US\$6.55 trillion of FUM invested across its suite of ETF and Index strategies as at December 2023. These funds are managed and brought to market by BlackRock, one of the largest asset management firms globally. BlackRock has significant scale and resources for effectively managing and structuring ETFs both in Australia and abroad and has a proven track record of successfully running index strategies.
- BlackRock does not employ the traditional analyst and portfolio manager structure, common with actively managed strategies. In saying this, Lonsec notes that Jane Kim leads a team of seven colleagues based in Hong Kong and Singapore who is the investment team responsible for the Fund. The other research team members are dedicated to ongoing

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quantitative research which focuses on the index methodology, projection of index changes, and value-added trading strategies. Lonsec considers the investment team to be highly experienced industry experts. Further, the investment team has been very stable over time. Given the passive nature of the Fund, Lonsec notes that key person risk is significantly lower compared to that of active managers.

- BlackRock's Risk and Quantitative Analysis ('RQA') team is utilised for ongoing risk monitoring and reporting for the Fund. RQA is a separate unit with its own reporting lines. Lonsec considers RQA to have access to sophisticated risk monitoring tools that provide the Fund with an effective risk management framework. The investment team also regularly meets with members of the RQA, with this interaction playing more of a risk reporting than a compliance role. RQA members do not have the power to veto investment decisions for the Fund.
- STOXX Limited, the operator of the Deutsche Börse's (DB) Group's index business, has established itself as a well-respected index provider, responsible for calculating over 7,500 rules-based indices. The Underlying Index was created in conjunction with BlackRock and STOXX.

## Investment approach

- STOXX uses Axioma analytics, specifically the world wide medium horizon fundamental factor risk model to construct the Underlying Index. The objective of the optimization software is to maximise the alpha score across the different factors within its hard risk constraints. These risk constraints, which include a risk target, factor exposures, market beta, sector, country and security weights, are coded to help produce a portfolio with a similar risk profile to the Parent Index.
- A multi-factor score for each security is generated from five investment factors being, quality, momentum, value, size and low volatility. Each factor is weighted differently and based on factors that the Index Provider considers best placed to outperform the Parent Index. Lonsec highlights that the Underlying Index was built in collaboration with the Manager. Given the passive investment strategy of the Fund, these factor weights are static and fixed.
- The methodology results in a factor-controlled index that is reasonably diversified with approximately 500 individual stocks at the time of this review. Lonsec notes that the methodology, based on a global equities beta Parent Index, naturally leads to some high absolute country and sector exposures, a feature that may expose investors to unintended macroeconomic and idiosyncratic risks from time to time.
- Lonsec considers BlackRock's Aladdin risk management system and trade execution systems to be impressive and notes that it allows stress testing for funds to be conducted in addition to the daily monitoring of standard risk metrics for the Fund. Lonsec considers technology to be an important factor in establishing a scalable index and/or ETF business. Lonsec also considers the overall quality of its investment personnel and research effort

to be high for this somewhat specialised style of management.

## ESG Integration

- Lonsec's ESG integration assessment considers the rigour and structure of the ESG process for the Fund, 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.
- ESG integration for index-tracking portfolios is largely limited to stewardship and engagement activities plus active voting, unless ESG considerations are clearly incorporated within the index. As such, for non-ESG driven indices, the ESG score provided by Lonsec is primarily an assessment of the overall ESG adoption, commitment and policy framework implemented at the Manager level. Further, Lonsec notes that simple sector exclusions do not constitute the incorporation of ESG.
- 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 ESG policy together with stewardship guidelines 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 is high, particularly the firm's stewardship policies. Reporting on engagement outcomes is publicly available with engagement priorities focusing on disclosure and climate change related issues.
- The Underlying Index used for this Fund incorporates some climate based scores as components of its quality factor however there is no general use of ESG factors in the construction of the index and thus no integration of ESG in the Fund.

## Overall

- Lonsec has provided a '**Recommended**<sup>Index</sup>' rating to the Fund. This follows the change to the Benchmark being tracked in February 2024. Lonsec considers the Fund to offer an efficient and moderately cost-effective exposure to a 'smart beta' factor-based portfolio of global equities. Additionally, Lonsec considers BlackRock to be well-resourced in terms of personnel and systems and to be a leader in the passive investment space.
- While made available by reputable providers, the Underlying Index has a very short operational record and likewise the Fund's history in tracking this. Additionally, Lonsec notes that the Underlying Index has the potential to expose investors to some unintended macroeconomic and idiosyncratic risks at times. Finally, Lonsec notes that the Fund's AFC is moderate compared to peers.

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## People and Resources

BlackRock, Inc. is a global asset management business and provider of global investment management, risk management and advisory services to institutional and retail clients around the world. As at December 2023, BlackRock Inc. managed approximately US\$10 trillion with products that span active, enhanced and index strategies across various markets and asset classes. BlackRock, Inc. is publicly listed on the New York Stock Exchange (NYSE) and the company has a majority of independent directors. BlackRock Investment Management (Australia) Limited ('BlackRock') is a wholly-owned subsidiary of BlackRock Inc. BlackRock is the Investment Manager and Responsible Entity of the Fund. BlackRock Australia managed approximately A\$218.10 billion as at December 2023.

## Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
JANE KIM	HEAD OF APAC EX-JAPAN INDEX EQUITY PORTFOLIO MANAGEMENT	14 / 9

The Fund is officially managed by the Portfolio Management Team that is led by Jane Kim, Head of Asia Pacific ex-Japan Portfolio Management. As the Fund aims to closely match the performance of its Underlying Index, a considerable emphasis is placed on process and automation. Notwithstanding, the portfolio management team is of reasonable size and can leverage resources from the wider organisation in the form of equity research, risk management and investment and product strategy.

Lonsec also notes that various replication strategies are implemented by BlackRock's Index Equity teams, which are separately allocated along regional lines including Europe, Asia Pacific and North America.

## Investment Approach

### Overview

BlackRock employs a passive investment strategy designed to track the performance of the Underlying Index, before fees and expenses. The investment team has noted that the Fund will generally adopt an 'optimisation' indexing strategy, whereby the Fund will invest in a representative sample of securities that collectively have an investment profile similar to that of the Underlying Index.

### Underlying index

The Underlying Index aims to maximise the exposure to five investment factors; quality, momentum, value, size and low volatility from its investable large and mid-cap global equity universe represented by the STOXX Developed World ('the Parent Index').

The Parent Index captures approximately 2700 securities across developed country equity markets. The rationale and metrics used to quantify these five investment factors are detailed below:

- **Quality (36%)** – 'quality' is quantified by taking a composite Z-score of the following; Accruals, Dilution, Gross Profitability and Change in Net

Operating Assets, Carbon Emission Intensity and Science Based Targets.

- **Momentum (27%)** – 'momentum' is determined by taking the composite Z-score of the following; Earnings Announcement Drift, Earnings Momentum and Price Momentum.
- **Value (27%)** – 'value' is quantified by taking a composite Z-score of five metrics; Price to Book ratio (P/B), Cash Flow Yield, Time Series Normalised Cash Flow Yield, Dividend Yield, and Earnings Yield.
- **Size (5%)** – 'size' is quantified by the negative of the natural logarithm of the total market capitalization in USD. Values are z-scored and truncated at +/- 3 standard deviations.
- **Low Volatility (5%)** - The low volatility factor is given by the standard deviation of monthly total returns in local currency, calculated over the 12 complete months prior to the review cut-off date.

The Multi-Factor Alpha Signal is smoothed using an exponentially weighted moving average with a half-life of 12 months and then values are multiplied by each stock's corresponding idiosyncratic volatility from the Axioma Risk Model.

The portfolio construction is performed using Axioma's portfolio optimization software. The objective of the optimization software is to maximize the exposure of the portfolio to the Multi-Factor Alpha subject to risk constraints. The Axioma portfolio optimisation tool utilises a number of constraints with notable ones detailed below:

- **Issuer Weight** - The maximum issuer weight is 10%.
- **Diversification** - The sum of all issuer weights greater than 4.5% must be less than 22.5%.
- **Beta Limits** - The beta of the portfolio must lie between 0.98 and 1.02. The predicted beta from the Axioma Risk model is used for this constraint.
- **Active Weights** - The percentage country exposure of the index must be within 5% of Parent Index values and sector exposure within 2% of the Parent Index.
- **Maximum Turnover** - The index has a one-way turnover limit of 5% per each quarterly rebalance. Maximum of 20% annually.
- **Ex-ante tracking error** - maximum 100bps.
- **Active factor exposure constraints** - '0.2 < quality < 0.5', '0.2 < momentum < 0.4', '0 < value < 0.4', '0 < low volatility < 0.4', '0 < size < 0.4'.

Rebalancing of the Underlying Index occurs quarterly in March, June, September, and December.

INDEX METRIC	DATA
INDEX PROVIDER	STOXX
MARKET COVERED	DEVELOPED MARKET GLOBAL EQUITIES
WEIGHTING METHODOLOGY	AXIOMA'S PORTFOLIO OPTIMISATION
CONSTITUENT DETERMINATION	FACTOR BASED
CONSTITUENT FACTORS	QUALITY, MOMENTUM, VALUE, SIZE AND LOW VOLATILITY
REBALANCING FREQUENCY	QUARTERLY

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## Transparency

iShares' ETF [website](#) is both detailed and user-friendly. It is designed as a self-service website with information relating to performance, current holdings and key portfolio characteristics for all iShares ETFs.

Lonsec notes that the methodology and characteristics of the family of STOXX indices that the Fund tracks are readily available to retail investors through the STOXX website. Lonsec believes that access to transparent and straightforward information on index products, their underlying indices and their index methodology is crucial to investors' understanding and ability to gauge suitability.

## Liquidity

The Fund offers investors liquidity via the ASX, which is supported by a dedicated market maker that is obligated to provide continuous liquidity to the market by maintaining pre-agreed spreads and volumes on the ASX. As at January 2024, the Fund had FUM of \$156.7m which Lonsec considers to be an adequate level.

The Fund's underlying constituents comprise a broadly diverse range of global equity securities listed on developed markets. Investors should be aware that during normal market conditions there should be reasonable liquidity for these securities, however during periods of heightened volatility liquidity has the potential to deteriorate.

## Fees and Indirect Costs

The Fund's AFC of 0.40% p.a. is moderate compared to peers.

Lonsec notes that the Fund's average bid / ask spread of 0.15% over the 12 months to January 2024, was competitive compared to the peer group average. The bid / ask spread for an ETF represents the average daily spread over a one-year period but may not reflect the actual spread incurred.

### Fee comparison

FUND NAME	AFC (% P.A.)	AVERAGE BID/ASK SPREAD (%)
		P.A.)
ISHARES WORLD EQUITY FACTOR ETF (WDMF)	0.40	0.15
SPDR MSCI WORLD QUALITY MIX FUND (QMIX)	0.24	0.27

Source: ASX daily average bid/ask spread over 12 months to January 2024.

## Performance

While the Fund was launched by the Manager in October 2016, the Fund only started tracking the current Underlying Index in February 2024; before this, the Fund tracked the MSCI World Diversified Multiple-Factor (AUD) Index. Hence, Lonsec's long-term tracking and relative performance calculations and charts do not reflect this change.

As the Fund only has a short track record tracking the new index, Lonsec prefers to assess the performance of the Fund over a more meaningful period before making

any inferences about its performance or ability to track its Underlying Index.

## 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 relative Product Disclosure Statement and should be read in full and understood by investors. Lonsec considers the major risks to be:**

### Equity market risk

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

### Performance risk

The value of, and returns from, an investment in the Fund will depend upon the performance of the underlying investments. There is no guarantee the value of an investment in any underlying investment will increase.

### Tracking error risk

The Fund seeks to minimize the Tracking Error against the Underlying Index it aims to match. There is no guarantee that this objective will be met.

### Liquidity risk

The Fund's shares trade intra-day at prevailing market prices in a similar manner to other securities on the ASX. Listing or trading on a stock exchange does not guarantee that a liquid market exists for an ETF.

### Foreign exchange risk

The Fund invests in assets that are denominated in non-Australian dollar currencies. Returns from any investment in the Fund may be eroded or enhanced due to the effects of movements in the Australian dollar relative to the local currencies of the securities in the Fund.

### Derivative risk

BlackRock may utilise derivative instruments, including futures to equitise cash, and for risk management purposes. Derivatives will not be used to leverage the portfolio.

In addition to any risk associated with the underlying asset (or index) for which a derivative is valued, derivative prices are affected by other factors including:

- Market liquidity;
- Interest rates; and
- Counter-party risk

### Counterparty Risk

The Fund takes on counterparty risk with regard to its market-making activities. Counterparties may default on their contractual obligations, potentially exposing investors to some financial losses.

## Further information

Further information can be obtained by calling BlackRock on 1300 474 273 or visiting [www.blackrock.com/au/individual/ishares](http://www.blackrock.com/au/individual/ishares).

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## Quantitative Performance Analysis - annualised after-fee % returns (at 29-2-2024)

### Performance metrics

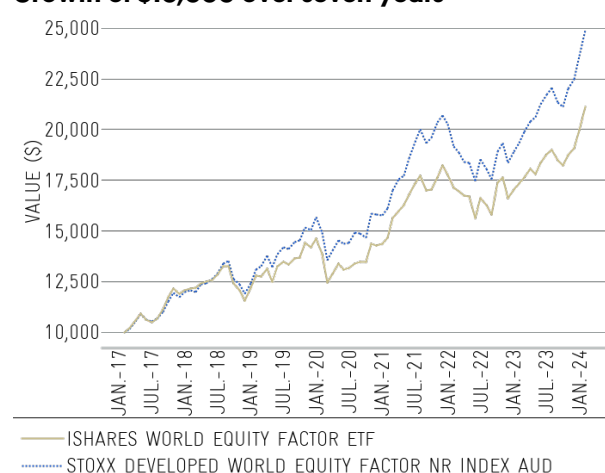
	1 YR	3 YR	5 YR	7 YR
TOTAL RETURN (% PA)	21.75	12.90	10.52	11.27
STANDARD DEVIATION (% PA)	8.61	12.17	12.35	11.83
EXCESS RETURN (% PA)	-7.10	-2.68	-3.18	-2.65
WORST DRAWDOWN (%)	-4.00	-14.19	-14.59	-14.59
TIME TO RECOVERY (MTHS)	2	12	11	11
TRACKING ERROR (% PA)	2.91	3.53	3.37	3.11

PRODUCT: ISHARES WORLD EQUITY FACTOR ETF

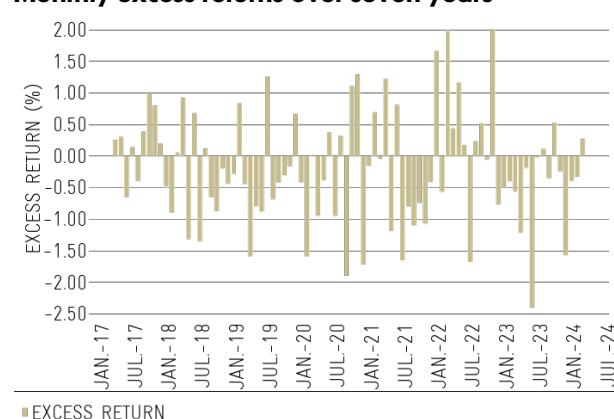
PRODUCT BENCHMARK: STOXX DEVELOPED WORLD EQUITY FACTOR NR INDEX AUD

TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

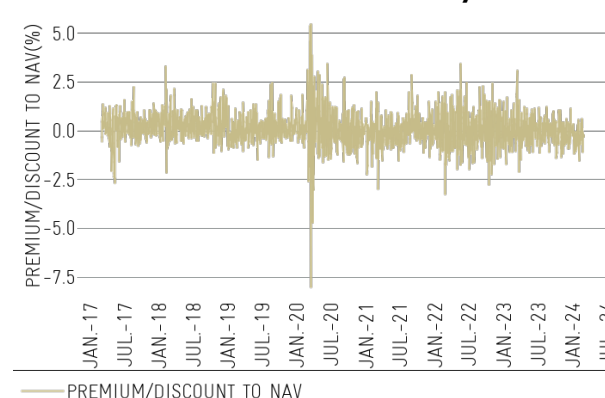
### Growth of \$10,000 over seven years



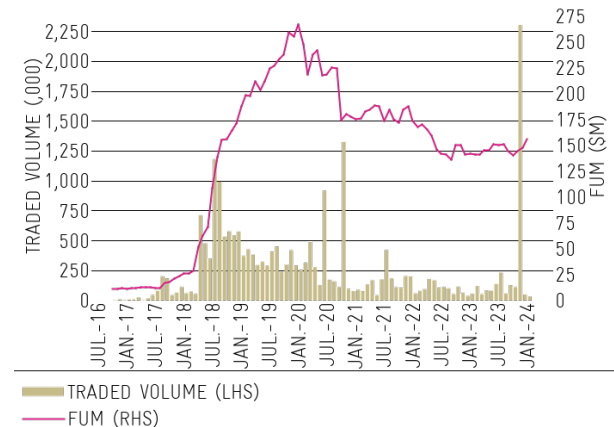
### Monthly excess returns over seven years



### Premium/discount to NAV over seven years



### Traded Volume and FUM



# iShares World Equity Factor ETF

## Glossary

[Click here for the glossary of terms.](#)

## 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.

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