



# Product Review

## iShares MSCI World ex Australia Value ETF

ISSUE DATE 01-03-2024

### 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 CBOE AUSTRALIA (CBOE)
PDS OBJECTIVE	THE FUND AIMS TO PROVIDE INVESTMENT RETURNS THAT CLOSELY TRACK THE PERFORMANCE OF THE UNDERLYING INDEX, BEFORE TAKING INTO ACCOUNT FEES, EXPENSES AND TAX.
INDEX PROVIDER	MSCI
UNDERLYING INDEX	MSCI WORLD EX AUSTRALIA ENHANCED VALUE INDEX
DERIVATIVE USE	IN LIMITED CIRCUMSTANCES BUT CANNOT BE USED TO LEVERAGE THE FUND.
SECURITIES LENDING	THE FUND DOES NOT CURRENTLY UTILISE SECURITIES LENDING.

### Fees & costs (% per annum)

MANAGEMENT FEES AND COSTS	0.25
PERFORMANCE FEE COSTS	-
NET TRANSACTION COSTS	0.03
ANNUAL FEES AND COSTS (PDS)	0.28

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	IVLU
52 WEEK LOW	\$25.08
52 WEEK HIGH	\$25.32
LAST PRICE	\$25.32
LAST NET ASSET VALUE (NAV)	\$25.52
PREMIUM / DISCOUNT TO NAV (DAILY)	-0.008%
AVERAGE DAILY TRADED VOLUME	-
AVERAGE DAILY TRADED VALUE	-

### 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

- Lonsec considers MSCI's 'value' metrics to be fundamentally sound and robust. Further, the Underlying Index incorporates a forward-looking analysis with the aim to mitigate the risk of a 'value trap'.
- The Fund is managed by BlackRock a leading global manager of passive strategies with significant scale, experience and resources.
- The Fund has among the lowest Annual Fees and Cost ('AFC') compared to other factor-based global ETFs researched by Lonsec.

### Weaknesses

- The Underlying Index typically can have significant regional exposures, relative to the broader Parent Index, which may expose investors to some unintended macroeconomic and idiosyncratic risks at times.
- The Fund is still building a track record having launched in February 2024.

### 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		●	

**We strongly recommend that potential investors read the product disclosure statement** Lonsec Research Pty Ltd ABN 11 151 658 561 • AFSL No. 421 445 • This information must be read in conjunction with the warning, disclaimer, and disclosure at the end of this document. This report supersedes all prior reports.

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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 MSCI World ex Australia Value ETF ('IVLU' or 'the Fund') provides exposure to a 'value' factor-based portfolio of companies from Developed Markets (ex-Australia). The Fund invests in approximately 400 large and mid-cap global listed equities that exhibit 'value' characteristics across a wide range of sectors. The Fund aims to track the performance of the MSCI World ex Australia Enhanced Value Index ('the Underlying Index') before fees and expenses.
- The Fund is passively managed by BlackRock ('the Manager') and the Underlying Index is defined by MSCI Inc. ('MSCI' or 'the Index Provider'). The Manager has adopted an optimisation investment strategy to track the Underlying Index. Under this approach, the Fund will hold a representative basket of securities to closely match the Underlying Index's risk profile.
- MSCI aims to select companies exhibiting strong value characteristics in accordance with their Enhanced Value Indexes methodology. Value screens are applied to constituents of the MSCI World ex Australia Index ('Parent Index'). MSCI aims to avoid sector biases by maintaining sector weightings in line with the headline Parent Index.
- The Fund invests in assets that are denominated in non-Australian dollar currencies and is currency unhedged.
- The Fund's PDS, dated 5 February 2024 Updated Fees and Costs Information document disclosed Annual Fees and Costs ('AFC') totalling 0.28% p.a. This value comprises (1) management fees and costs of 0.25% p.a., and (2) net transaction costs estimate of 0.03% 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 fund with a 'value' bias and as such will generally sit within the growth component of a balanced portfolio. The Fund predominantly provides exposure to global large-cap listed securities. Lonsec considers the Fund suitable for blending with other global equity strategies for defensive to high-risk profile investors with a 5+ year investment time horizon.
- 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

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

## 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 which is the investment team responsible for the Fund. The other research team members are dedicated to ongoing 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

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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.

- The Underlying Index is provided by MSCI, who is a globally significant and deeply experienced index provider.

## Investment approach

- Lonsec considers the three metrics used by the Underlying Index to identify 'value' companies to be simple and robust, incorporating both historical and forward-looking data. These metrics are Forward Price to Earnings ('Fwd P/E'), Enterprise Value to Operating Cash Flows ('EV/CFO') and Price to Book Value ('P/B'). All three metrics seek to standardise a company's current value, which Lonsec believes is common to these types of strategies. Lonsec further notes that calculations used in the Fwd P/E metric can be subjective and MSCI's determination of a company's forecasted earnings may not be achieved.
- Lonsec views the weighting methodology as a logical strategy as it aims to overweight higher 'value' stocks in each sector. A value methodology naturally leads to specific industry sector bias however, the Index Provider seeks to mitigate this by keeping sector weights in-line with the Parent Index. Further, the Underlying Index is run by MSCI which is globally significant and highly experienced index provider.

## 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 has no basic filters applied and there is no integration of ESG factors in its construction.

## Overall

- Lonsec has provided the Fund a '**Recommended Index**' rating. In Lonsec's opinion, the Fund represents a cost-effective means of gaining exposure to a portfolio of global companies exhibiting a 'value' bias. The Fund's fees are amongst the lowest compared to other factor-based global equity ETFs peers. The fundamental underpinnings of the Underlying Index are viewed as sound and based on robust measures.
- While the Underlying Index is sector constrained relative to the Parent Index, there are no such regional limits which the may lead to significant regional deviations and expose investors to some unintended macroeconomic and idiosyncratic risks from time to time. Finally, the Fund is still building a track record over an investment cycle.

## 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\$218.1 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.

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BlackRock also employs a specialist Capital Markets Team to ensure that iShares products in Australia fully function across both primary and secondary markets. Their responsibilities include the maintenance and development of market-maker relationships, broker dealer education and thought leadership with respect to ETF trading and analytics.

## 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 MSCI World ex Australia Enhanced Value Index is designed to compile a portfolio of approximately 400 stocks that exhibit high 'value' characteristics, as determined by MSCI's 'value' metrics.

The Underlying Index starts with an investable universe of large and mid-cap securities across 22 developed market countries (ex Australia). This is known as the Parent Index (MSCI World ex Australia Index) and covers approximately 85% of the free float-adjusted market capitalisation in each country. Securities in the Parent Index are given a relative score across three metrics:

- Forward Price to Earnings ('Fwd P/E') - Forward looking, and included to help avoid value traps.
- Enterprise Value to Operating Cash Flows ('EV/CFO') - Incorporates financial leverage and facilitates comparison of companies with different capital structures.
- Price to Book Value ('P/B') - Represents the common equity available to shareholders.

Scores for each of the above three metrics are averaged and standardized to generate a cumulative score of 'value'. Note, for the Financials sector only Fwd P/E and P/B are used and for the Real Estate sector only EV/CFO is used.

Eligible constituents are then ranked based on their sector-relative composite 'value' score by standardizing within each stock's sector. The top 400 stocks with the best sector-relative composite 'value' scores are selected for inclusion and given an initial weight of market cap times 'value' score. Stock weights are then rescaled so that sector weights in the Underlying Index mirror that of the Parent Index. The indexes are rebalanced semi-annually in May and November. Relative to the Parent Index, index construction rules are used to limit differences in sector weightings and keep these in-line although regional deviations are unconstrained and may be material.

INDEX METRIC	DATA
INDEX PROVIDER	MSCI
MARKET COVERED	GLOBAL EQUITIES (EX AUS)
INDEX UNIVERSE	STOCKS OF THE MSCI WORLD EX AUSTRALIA INDEX
COUNTRIES	22
CONSTITUENCY DETERMINATION	RULES BASED, DRIVEN BY 'VALUE' SCORE
WEIGHTING METHODOLOGY	VALUE SCORE MULTIPLIED BY MARKET CAP WEIGHT IN PARENT INDEX. SECTOR NEUTRAL TO PARENT INDEX
REBALANCING FREQUENCY	SEMI-ANNUAL

## 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 MSCI indices that the Fund tracks are readily available to retail investors through the MSCI 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 CBOE, 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 CBOE. The Fund was seeded with \$10m in February 2024, Lonsec expects the FUM level to grow over the medium term.

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

Lonsec notes that the Fund has the lowest AFC of 0.28% p.a. compared to other ETF's with a 'value' tilt.

The Fund is newly launched and bid / ask spread cannot yet be readily estimated. 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. The bid/ask spread for the Fund is 0.28% from listing to 26 February 2024.

### Fee comparison

FUND NAME	AFC (% P.A.)	AVERAGE BID/ASK SPREAD (% P.A.)
ISHARES MSCI WORLD EX AUSTRALIA VALUE ETF (IVLU)	0.28	0.28^
VANECK MSCI INTERNATIONAL VALUE ETF (VLUE)	0.42	0.16^

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

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^Fund has less than 12 month's track record.

## Performance

The Fund was listed on 16 February 2024 and is still establishing a track record. Lonsec prefers to observe a Fund's performance over an investment cycle before drawing any meaningful observations on fund performance.

## 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.

### 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

### Counter-party Risk

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

## Further information

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

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## 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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