Product Assessment

Report as at 03 Apr 2024

Zenith
RECOMMENDED
INDEX

iShares Wholesale Australian Equity Index Fund (S class)

Rating issued on 29 Jun 2023 | APIR: BLK9675AU

Investment objective

To track the return of the S&P/ASX 300 Accumulation Index, before fees and expenses.

Manager	BlackRock Investment Management (Australia) Limited
Distributor	BlackRock Investment Management (Australia) Limited
Sector	Australian Shares \ Large Companies
Investment Style	Index - Traditional
RI Classification	Traditional
Absolute Risk	High
Relative Risk	Index
Investment Timeframe	7+ Years
Benchmark	S&P/ASX 300 (Accum)
Min Investment Amount	$500,000
Redemption Frequency	Daily
Income Distribution	Quarterly
Fund Size	Not Disclosed
Management Cost	0.10% p.a. Incl. GST
Performance Fee	N/A
Buy / Sell Spread	0.04% / 0.04%
Inception Date	01 Oct 2022

Fund facts

- Tracking Error has typically been less than 0.05% p.a.
- Portfolio turnover is expected to average 10% p.a. over a market cycle

Viewpoint

Operated by BlackRock Investment (BlackRock), the Fund adopts a full-replication approach to indexing, seeking to track the S&P/ASX 300 Accumulation Index before fees and expenses. Zenith believes the extensive resources dedicated to index enhancements and BlackRock's historical indexation experience position the Fund well to deliver upon its investment objectives. However, in light of recent fee compression in its peer group, we believe the Fund's fee structure detracts from the overall attractiveness of the strategy.

BlackRock was established in 1988 as the financial management group within the private equity firm, the Blackstone Group. BlackRock employs approximately 19,400 staff located in 36 countries across the world, with approximately $US 9 trillion in funds under management, as at 31 March 2023.

Management of the Fund is the responsibility of BlackRock’s Asia-Pacific ETF and Index Investment portfolio management team (APAC EII), which is led by Naoto Furukawa. Jane Kim assumed responsibility for the management of the Fund in April 2023, following Derek Dei's transition within BlackRock. Zenith does not expect Dei's departure to have a material impact on the Fund given its quantitative nature and BlackRock's highly-resourced investment team.

BlackRock's investment philosophy is predicated on total performance management, which seeks to balance risks, returns and costs in a systematic and repeatable manner. The key to adhering to this philosophy is a detailed understanding of the benchmark, index changes and the issuance of new securities. Consequently, BlackRock undertakes detailed portfolio analysis and benchmark research to support its portfolio construction and trade execution processes. Zenith believes the process is transparent and efficient, providing investors with a cost-effective indexed exposure to Australian equities.

To replicate the return of the underlying index, the team employs a passive, full replication investment approach, holding virtually all securities in the index at the appropriate benchmark weight. BlackRock implements return-enhancing strategies including internal crossing networks and transaction cost analysis. Zenith believes BlackRock's size and scale is a significant advantage, as it provides the Fund with considerable depth and breadth to save on transaction costs that would be incurred if the Fund were to trade on the open market.

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

Zenith notes that the management cost for the Fund represents a 0.11% premium to its Zenith-rated peer group. Zenith considers this premium unwarranted and believes it dilutes the overall attractiveness of the Fund.

Fund analysis

Fund characteristics

Constraint	Value
Tracking Error (% p.a.)	Less than 0.5% p.a. (Expected)

Investment objective and philosophy

BlackRock aims to track the return of the S&P/ASX 300 Accumulation Index, before fees and expenses.

BlackRock's investment philosophy is predicated on total performance management, which seeks to balance risks, returns and costs in a systematic and repeatable manner. The scale of BlackRock's operations allows the APAC EII team to leverage BlackRock's extensive resources, including internal crossing networks and trade optimisation software, to improve the returns experienced by the investor.

The end result is a portfolio that holds most securities in the index at the respective benchmark weight. Given BlackRock's size, scale and experience in indexation products, Zenith believes the process is transparent and efficient, providing investors with cost-effective indexed exposure to Australian equities.

Portfolio applications

In general, compared to most other asset classes, equities offer investors the opportunity for higher capital growth over the longer term with some income, however, this higher growth is also often associated with higher volatility. Therefore, it is recommended that investors adopt a longer time frame when investing in equities.

Investors should also be cognisant of the fact that the Australian equity market only represents approximately 2% of global equity markets (in terms of market capitalisation). Zenith recommends that investors diversify their investments across asset classes, both domestically and globally.

The Fund is offered as a passive full-replication of the S&P/ASX 300 Accumulation Index. While there could potentially be various applications of the Fund, we believe it is best used as a core or satellite component within a balanced or growth investor's portfolio.

Zenith believes that the Fund is most appropriate for investors with low conviction in using an actively managed fund or investors seeking a cost-effective solution.

Investors should be aware that the Fund has a $A 500,000 minimum investment requirement, which is relatively high and reflects institutional entry levels. Investors who are unable to meet the minimum investment amount may be required to access the Fund through other retail channels, potentially incurring additional fees, which may dilute the overall attractiveness of the Fund.

The Fund's portfolio turnover is expected to be in line with the benchmark, which averages 10% p.a. over a market cycle. BlackRock was unable to indicate what portion of expected turnover is attributed to the resizing of existing positions and what portion is attributable to complete sales and new additions. Given this expected level of turnover, the majority of the Fund's returns are expected to be delivered via capital appreciation in the unit price, rather than through the realisation of capital gains in income distributions. In addition, realised capital gains are highly likely to be eligible for the capital gains tax discount. As such, holding all else equal, the Fund may be more appealing to investors who are high marginal tax rate payers as it will result in superior after-tax return outcomes.

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

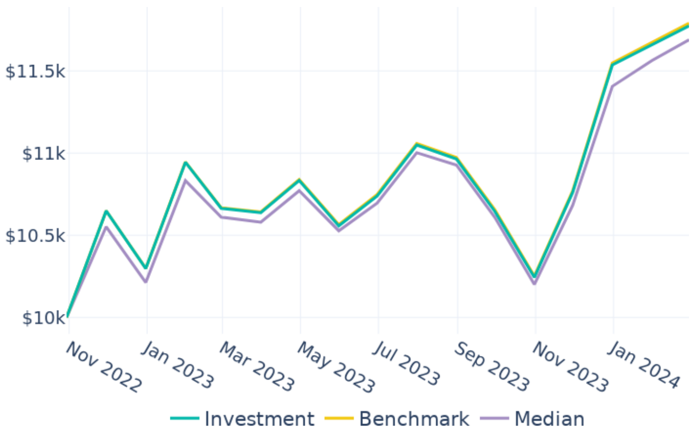
Performance as at 29 Feb 2024

Monthly performance history (%, net of fees)

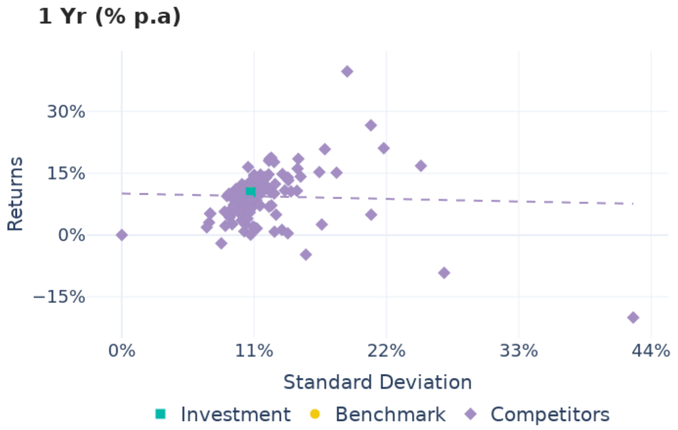
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	1.08%	0.96%											2.05%	2.09%
2023	6.28%	-2.56%	-0.25%	1.84%	-2.55%	1.72%	2.89%	-0.77%	-2.90%	-3.78%	5.05%	7.20%	12.03%	12.13%
2022											6.48%	-3.30%	2.98%	2.99%

**S&P/ASX 300 (Accum)*

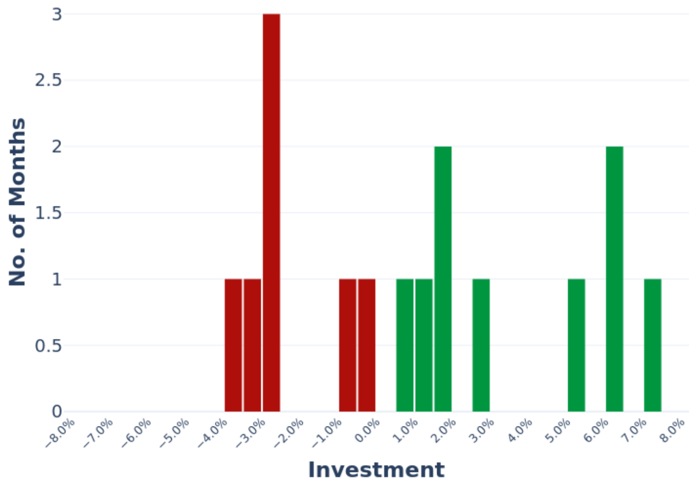
Growth of $10,000



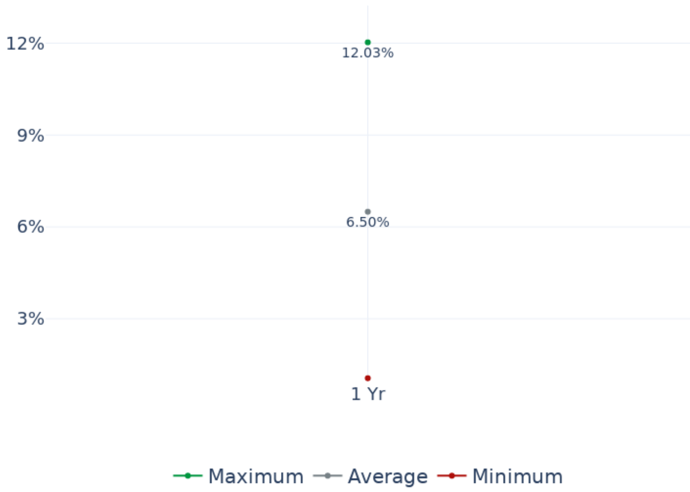
Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)



Absolute performance analysis

Instrument	1 Mth	3 Mths	6 Mths	1 Yr	Inception
Investment	0.96%	9.40%	7.38%	10.40%	13.02%
Benchmark	0.98%	9.46%	7.43%	10.52%	13.14%
Median	1.10%	9.43%	6.97%	10.17%	12.42%
Cash	0.34%	1.05%	2.09%	4.07%	3.81%

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	Inception
Fund Ranking	72 / 157	65 / 159
Quartile	2nd	2nd

Absolute risk

Instrument	1 Yr	Inception
Standard Deviation (% p.a.)		
Investment	10.71%	12.37%
Benchmark	10.73%	12.38%
Median	10.27%	11.59%
Downside Deviation (% p.a.)		
Investment	5.46%	5.95%
Benchmark	5.46%	5.95%
Median	5.38%	5.71%

Absolute risk/return ratios

Instrument	1 Yr	Inception
Sharpe Ratio (p.a.)		
Investment	0.59	0.74
Benchmark	0.60	0.75
Median	0.59	0.74
Sortino Ratio (p.a.)		
Investment	1.16	1.55
Benchmark	1.18	1.57
Median	1.13	1.51

All commentary below is as at 31 May 2023.

BlackRock aims to track the return of the S&P/ASX 300 Accumulation Index, before fees and expenses.

The Fund has marginally underperformed the benchmark over all periods of assessment, which is consistent with our expectations.

The Fund's risk, as measured by Standard Deviation, has been similar to the benchmark over all periods of assessment.

Investors should be aware that as an index fund, it does not specifically target income or growth returns. Distributions will be made quarterly where possible.

Relative performance

Excess returns

Statistic	1 Mth	3 Mths	6 Mths	1 Yr	Inception
Excess Return	-0.02%	-0.06%	-0.06%	-0.12%	-0.12%
Monthly Excess (All Mkts)	0.00%	0.00%	16.67%	16.67%	12.50%
Monthly Excess (Up Mkts)	0.00%	0.00%	0.00%	14.29%	11.11%
Monthly Excess (Down Mkts)	0.00%	0.00%	50.00%	20.00%	14.29%

Capture ratios (% p.a.)

Statistic	1 Mth	3 Mths	6 Mths	1 Yr	Inception
Downside Capture	0.00%	0.00%	99.83%	100.26%	100.28%
Upside Capture	98.06%	99.39%	99.52%	99.60%	99.71%

Tracking error (% p.a.)

Instrument	1 Yr	Inception
Investment	0.04%	0.03%
Median	0.70%	1.13%

Information ratio

Instrument	1 Yr	Inception
Investment	-3.01	-3.41
Median	-0.50	-0.64

Beta statistics

Statistic	1 Yr	Inception
Beta	1.00	1.00
R-Squared	1.00	1.00
Correlation	1.00	1.00

All commentary below is as at 31 May 2023.

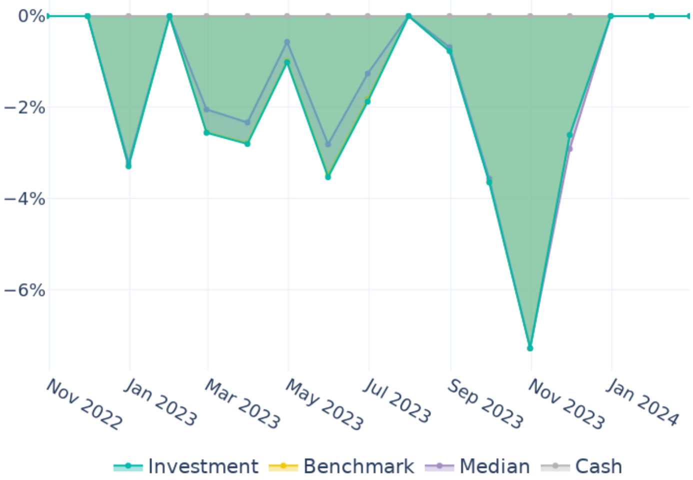
The Fund's market sensitivity, as measured by Beta, has been 1.00 over all periods of assessment.

In addition, the Fund's correlation statistic highlights the extremely strong relationship between Fund and index performance.

The Fund has delivered a tight Tracking Error over longer periods of assessment.

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 commentary below is as at 31 May 2023.

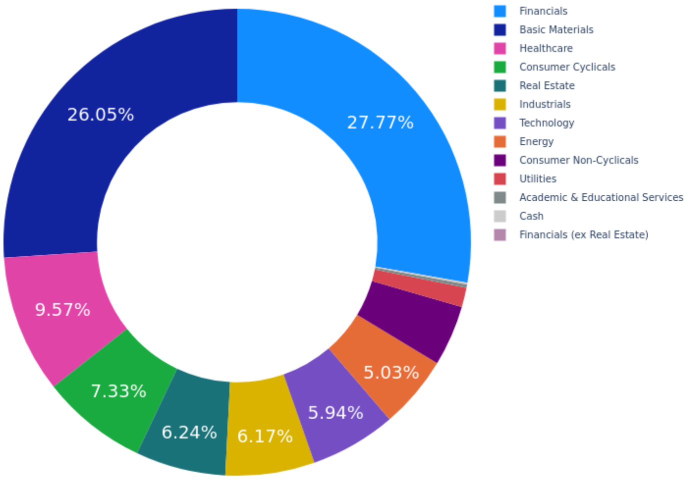
As expected of an index replication strategy, the Fund has exhibited a drawdown profile that has closely matched the benchmark.

Product Exposures

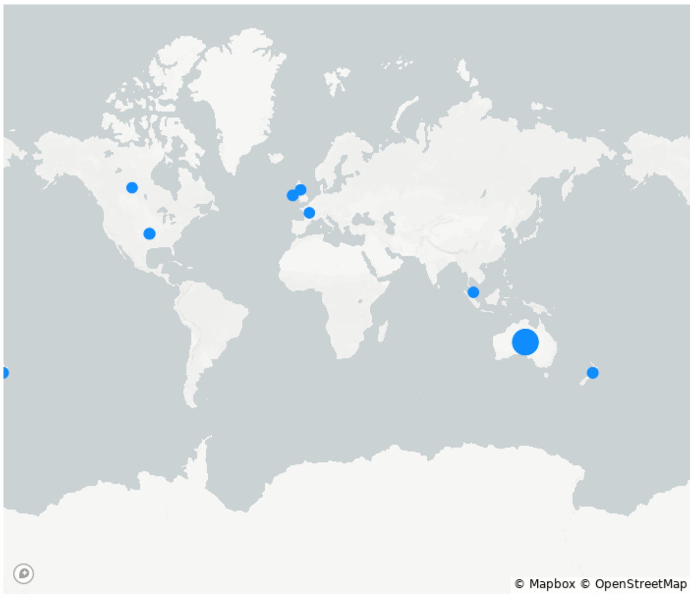
Holdings as at 31 Dec 2023

Stock	Weight	Country	Sector	Active Exposure
BHP Billiton	10.99%	Australia	Basic Materials	-0.02%
Commonwealth Bank of Australia	8.06%	Australia	Financials	-0.01%
CSL	5.96%	Australia	Healthcare	-0.01%
National Australia Bank	4.13%	Australia	Financials	-0.01%
Westpac Banking Corporation	3.46%	Australia	Financials	-0.01%
Australia and New Zealand Banking Group	3.35%	Australia	Financials	-0.01%
Macquarie Group	2.84%	Australia	Financials	-0.01%
Wesfarmers	2.78%	Australia	Consumer Cyclicals	-0.01%
Woodside Energy Group Ltd	2.54%	Australia	Energy	0.00%
Rio Tinto	2.17%	Australia	Basic Materials	0.00%
Total	46.28%			

Equity sector exposure



Equity country exposure



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.

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

Concentration risk: Much like the Australian index that it fully replicates, the Fund is subject to a high concentration in particular stocks and sectors. For example, the largest 10 holdings typically represent over 45% of the Fund, whilst the two largest sectors, resources and financials, typically represent nearly 55% of the Fund.

Basis risk: BlackRock may use SPI 200 Futures contracts to equitise cash exposures, which are normally held at less than 3%. While there is a high level of overlap between the Fund's benchmark (S&P/ASX 300) and the SPI 200 Futures (S&P/ASX 200), there are slight differences between the two. In addition, while Zenith does not expect there to be major differences between the spot and futures prices, there remains the possibility that the two prices deviate from each other. As such, the performance of the Fund may slightly deviate from that of the benchmark.

Turnover risk: Increased index activity due to constituent changes and corporate activity may increase portfolio turnover, giving rise to issues surrounding taxation and efficiency regarding portfolio trading costs.

Security/asset selection

BlackRock's security selection process is purely driven by index constituent changes, with the Fund holding the constituents of the S&P/ASX 300 Index directly.

Index construction

Index construction begins with the constituents of the ASX, with the 300 largest ASX-listed companies by market capitalisation added to the S&P/ASX 300 Index, subject to the following rules:

- A company that is currently included is only removed if the free float market capitalisation of the company is lower than the free float market capitalisation of the 326th-ranked company on a selection day
- A company that is currently not included is only included if the free float market capitalisation of the company is higher than the free float market capitalisation of the 274th-ranked company on a selection day

If the application of the above rules results in less than 300 companies being included in the index, ASX-listed companies with the highest free float market capitalisation are added until 300 constituents are held. Conversely, if more than 300 companies are included as a result of the above rules, ASX-listed companies with the lowest free float market capitalisation are removed until 300 constituents remain.

The index is highly liquid, actively traded and rebalances quarterly in March, June, September and December.

Overall, Zenith believes the index's construction is appropriate.

Responsible investment approach

BlackRock has an established Responsible Investment Policy, last updated in 2023.

The Fund does not have any specific environmental, social and governance (ESG) exclusions nor does BlackRock consider ESG issues in its construction of the Fund. Given BlackRock's index replication approach, Zenith is comfortable with its approach to ESG.

Zenith has assigned the Fund a responsible investment classification of Traditional.

Portfolio construction

BlackRock adopts a full-replication approach, which requires the Fund to hold all index constituents of the S&P/ASX 300 Index. Any changes in the underlying index are required to be actioned for the Fund on the same day. Cashflow management is executed in a manner that provides an efficient outcome with regard to Tracking Error and transaction costs.

BlackRock expects the Fund to be virtually fully invested, with any remaining cash (usually less than 3%) being equitised via SPI 200 Index Futures contracts. Derivatives such as futures, forwards and options can be used to manage risk and return. When derivative contracts are established they will always be backed by cash holdings and/or underlying assets. Derivative securities will not be used to gear the Fund.

One of the drawbacks of a passive investment strategy is that the potential benefits of any corporate actions are subject to the decision making of the index. Given that BlackRock's primary objective is to track the index as closely as possible, it will typically elect to mirror the index regarding corporate actions. For example, if the index chooses to not recognise a rights issue, the Fund will mirror this. This may be to the detriment of investors.

BlackRock utilises its internal crossing network in the first instance to implement trades in order to minimise overall transaction costs. Zenith believes BlackRock's size and scale is a significant advantage, as it provides the Fund with considerable depth and breadth to implement internal crossings, allowing BlackRock to save on the transaction costs that would be incurred if the Fund were to trade on the open market. Trade execution is performed by a separate desk to the portfolio manager, highlighting a clear demarcation of responsibilities and expertise. Implementation of positions is rules-based and is executed at the close of daily trade.

Portfolio turnover is expected to be broadly similar to the benchmark, averaging 10% p.a. over a market cycle.

Overall, Zenith believes BlackRock's scale and proprietary software place the Fund in a strong position to deliver on its investment objectives.

Risk management

As a product that fully replicates the index, there is less focus on balancing the risk and returns of constituent securities, with BlackRock placing a greater emphasis on reducing transaction costs.

Zenith notes that index changes can cause cash drag on the portfolio due to delays in the transaction settlement process. Zenith believes this risk is effectively diminished through the scale of BlackRock's operations, which limits both transaction costs and the cash drag associated with liquidating positions. Zenith notes that BlackRock will equitise excess cash holdings through futures contracts to minimise the impact of significant inflows on the portfolio.

BlackRock's investment teams are supported by a specialist Risk and Quantitative Analysis team (RQA) that provides an additional layer of risk management and is independent of the portfolio management team. The team monitors the portfolio daily and serves as a check to ensure that the Fund is being managed according to guidelines. Zenith is comforted by the fact that the RQA is independent of BlackRock's investment functions, having separate reporting lines.

Portfolio turnover is reviewed on an annual basis whilst trading costs are reviewed at least semi-annually. Given the significant effect that trading costs can have on portfolio returns, Zenith considers this review process to be prudent.

Zenith believes BlackRock benefits greatly from one of the most advanced technology platforms in its peer group, which 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)	0.10% p.a.	0.74% p.a.
Management Fees and Costs	0.10% p.a.	0.66% p.a.
Transaction Costs	0.00% p.a.	0.03% p.a.
Performance fees as at 30 Jun 2023	0.00%	0.08%
Performance fees description	N/A	
Management Cost	0.10% p.a.	0.68% p.a.
Buy / Sell spread	0.04% / 0.04%	0.19% / 0.19%

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).

The sector average management cost is based on the average management cost of all flagship Australian Shares - Large Cap funds surveyed by Zenith.

Zenith notes that the management cost for the Fund represents a 0.11% premium to its Zenith-rated peer group. Zenith considers this premium unwarranted and believes it dilutes the overall attractiveness of the Fund.

Investors should also be aware that the Fund has a $A 500,000 minimum investment requirement which is relatively high and reflects institutional entry levels. Investors who are unable to meet the minimum investment amount may be required to access the Fund through other retail channels, potentially incurring additional fees, which may dilute the overall attractiveness of the Fund.

(The fees mentioned above are reflective of the flagship version only, fees 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 December 2023.

As at 30 April 2023, BlackRock managed approximately $A 18 billion in the strategy, of which approximately $A 2 billion was invested in the Fund.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Naoto Furukawa	Head of EII Portfolio Engineering, Asia Pacific	26	26	Tokyo, Japan
Jane Kim	Head of APAC ex-Japan Index Equity Portfolio Management	14	8	Hong Kong, Hong Kong

Management of the Fund is the responsibility of BlackRock’s Asia-Pacific ETF and Index Investment portfolio management team (APAC EII), which is led by Naoto Furukawa. Jane Kim assumed responsibility for the management of the Fund in April 2023, following Derek Dei's internal transition within BlackRock. Zenith does not expect Dei's departure to have a material impact on the Fund given its quantitative nature and BlackRock's highly-resourced investment team.

The APAC EII team ensures that portfolios are optimised and trades are conducted in a sensible manner across BlackRock’s suite of Asian Pacific index strategies.

The APAC EII team is disseminated across two offices. Furukawa is based in Tokyo, while San Francisco-based Hsui manages a

Hong Kong based team of six. Although Zenith typically prefers centrally located teams, we acknowledge that investment management through indexation tends to be systematic and highly process driven. Given the span and sophistication of BlackRock's global operations, Zenith believes that the team's structure is appropriate.

APAC EII also has access to other BlackRock investment professionals and research teams around the world. Zenith believes one of BlackRock's key advantages is its ability to draw on broad resources.

Zenith believes the team responsible for the Fund is appropriately resourced given the nature of the investment process and input provided by the extensive global resources of BlackRock.

About the sector

Sector characteristics

The Zenith 'Australian Shares – Large Companies' sector consists of long-only strategies investing in the Australian equities asset class. The sector incorporates both benchmark aware and benchmark unaware strategies that focus predominantly on stocks with large market capitalisations. Additionally, the sector is one of the most competitive in the investment landscape, based on the number of managers and strategies available to investors. Despite the competitiveness of the sector, Zenith expects rated long-only products to outperform the passive index over the long term.

Zenith benchmarks all funds in this sector against the S&P/ASX 300 Accumulation Index. However, many managers in this sector benchmark themselves against the S&P/ASX 200 Accumulation Index. Both indices are market-capitalisation weighted, resulting in companies with the largest market capitalisations receiving the highest weightings within the index. Over the longer term, Zenith believes there will be minimal difference between the return profiles of these indices.

The Australian equities asset class, as represented by the S&P/ASX 300 Index, is highly concentrated and narrow. Zenith considers a company to be a large-cap company if it falls within the S&P/ASX 50 Index, with stocks falling within the S&P/ASX 51 to 100 considered mid-cap companies. Furthermore, Zenith considers stocks that fall within the S&P/ASX 101 to 300 to be small-cap companies.

As at 31 March 2023, the Financials and Materials sectors combined represented a significant portion of the S&P/ASX 300 Accumulation Index, with the Financials sector accounting for approximately 27% and Materials approximately 26%. In addition, the top 10 stocks represented approximately 46% of the Index and the top 20 stocks represented approximately 61%.

Sector risks

Funds within the 'Australian Shares – Large Companies' sector are exposed to the following broad risks:

Market and economic risk: A sustained downturn across the Australian equity market is a risk to the absolute performance of funds in the sector. Additionally, changes in economic, social, technological or political conditions, as well as market sentiment, could also lead to negative fund performance. This risk can be significantly reduced by investors adhering to a fund's prescribed investment timeframe.

Specific security risk: This is the risk associated with an individual security. The price of common shares in a company may be affected by unexpected changes in company operations such as changes in management or the loss of a significant customer.

Liquidity risk: This is the risk that a security or asset cannot be traded promptly, due to insufficient trading volumes in the Australian equity market. When trading volumes are low, buyers/sellers can significantly impact the price of a security when entering or exiting a position.

Style bias risk: Australian equity managers employ different investment styles such as Growth, Value or Neutral (a combination of Value and Growth). Each style is conducive to certain market conditions. This risk can be significantly reduced by investors adhering to a fund’s prescribed investment timeframe

Capacity risk: High levels of funds under management (FUM) can present additional challenges to an Australian equity manager. High FUM has the potential to restrict a manager's ability to trade efficiently and/or be forced to disclose substantial shareholdings to the market (most common in smaller companies).

Regulatory Risk: All investments carry the risk of being affected by changes to government policies, regulations and laws. Security prices in which funds may have exposure are also subject to certain risks arising from government intervention in the Australian equity market. Such regulation or intervention could adversely affect fund performance.

Administration and operations

Responsible Entity	BlackRock Investment Management (Australia) Limited

Zenith rating

Report certification

Date of issue: 29 Jun 2023

Role	Analyst	Title
Analyst	Jock Allen	Senior Investment Analyst
Sector Lead	Quan Nguyen	Head of Equities
Authoriser	Bronwen Moncrieff	Head of Research

Association & relationship

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Rating history

As At	Rating
29 Jun 2023	Index Recommended
30 Jun 2022	Index Highly Recommended
24 Jun 2021	Index Highly Recommended
18 Jun 2020	Recommended
20 Jun 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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