BLACKROCK CONCENTRATED INDUSTRIAL SHARE FUND

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FUND UPDATE **30 April 2021**

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	2 Yrs pa	3 Yrs pa	5 Yrs pa	Since Incep[1] pa
The Fund (Net of Fees)	**5.94**	**4.71**	**5.04**	**46.49**	**12.52**	**6.93**	**11.38**	**11.62**
Benchmark[2]	3.31	5.76	5.65	27.24	7.61	8.79	9.47	9.85
Outperformance (Net of Fees)	2.63	-1.05	-0.61	19.25	4.91	-1.86	1.91	1.77
S&P/ASX 300 (for comparative purposes)	3.70	7.64	8.00	31.58	9.39	9.70	10.40	10.61

[1] Performance of the fund is an adjusted combination of the past performance of class X and class D to illustrate performance of the strategy since inception of the fund. It is for illustrative purposes only to show the performance of class D as if its inception date of that class was 9 December 2015. The unadjusted past performance of class D is set out [below]. Please see ^ in the footnotes for further information.

[2] S&P/ASX300 Industrials Accumulation Ex Top 5 Stocks by Mkt Cap Gross Index

	1 Mth	3 Mths	YTD	1 Yr	2 Yrs pa	3 Yrs pa	5 Yrs pa	Since Incep pa
Class D (net of fees)	5.94	4.71	5.04	46.49	12.52	6.93	11.38	10.78

Please see ^^ in the footnotes of further information.

Performance Summary

Fund Review

The fund bounced back in April to gain +6% during the month in absolute term, outperforming the broader market by +2.2% and reinforcing the strong performance over the past 12 months.

Looking at the latest market data, it is apparent that sustainable investing has become an important consideration for investors and companies alike. While sustainable investing means different things to different people, and regardless of its interpretation, one thing is certain and that is the focus on companies to do the right thing by the environment, by their people and society in addition to delivering financial results. Governments around the world are committing to targets of meaningful reductions in carbon emissions. We are seeing increased incentives to develop clean energy solutions as well as more reporting and regulation of the largest emitters. Companies that are not thinking about these issues or only paying lip service to them will find themselves under increased scrutiny by regulators, the media and society in general.

Our long-term investors will be familiar with our five quality filters that sit at the centre of our investment process. Our sustainability filter focuses on Environmental, Social and Governance considerations. When a company is considered for inclusion in the investment universe, we leverage the data and insights from the 40 experts in the BlackRock Investment Stewardship team, as well as data and analysis from a range of third-party specialists. While a red flag or even several red flags do not necessarily preclude us from investing in a company, these flags become items for engagement with the board, again leveraging the expertise of our Investment Stewardship team.

Generally, our philosophy is that a board with strong governance and who is thinking about the long-term health of the company would typically pay close attention to any environmental and social issues the business may face. We have frequently said that we favour companies managed by talented management teams who are allocating capital wisely for the long term and who preferably have significant skin in the game. This approach is self-evident when we take a look at our portfolio which has an **average of 16.6% insider ownership compared to just 6.6%** for the broader market as measured by the ASX300.

Portfolio Management Team

Charles Lanchester,
Portfolio Manager

Madeleine Beaumont,
Portfolio Manager

Sam Theodore,
Portfolio Manager

Nick Corkill,
Investment Analyst

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

When it comes to CEO tenure, the average CEO in the portfolio has been with the firm for **11.5 years while just 4.3 years for the broader market**. Sometimes making the right decision for the long term can negatively impact the short-term results however the consequence of not making these decisions can be very damaging over the long run. No approach is fool proof however by aligning ourselves with management who have built businesses over the long term with their capital invested alongside us should increase the chances of sustainable long-term returns.

Fund Performance and Stock Selection

The fund returned +5.9% for the month, net of fees, outperforming its benchmark (ASX300 Industrials ex Top 5 Market Cap Index) return of +3.3% by +2.6%. Over the last 12 months, the fund has outperformed its benchmark by +19.2% and the broader market (as measured by the ASX300 Accumulation Index) by +14.9% over the same period.

On a market adjusted basis, amongst the top contributors for the month were our positions in Peter Warren (PWR), E-Road (ERD) and Praemium (PPS) while Redbubble (RBL) was amongst the top detractors.

Contributors

PWR – Peter Warren is a leading auto dealership business, founded in South West Sydney in 1958, operating an integrated new and used vehicle retailing business with around 2.2% share of the new vehicle market. We took the opportunity to invest in the IPO of PWR after several meetings with the management team and also Chairman Paul Warren, who is the son of the founder Peter Warren. We were attracted to the structure of the IPO, where we were investing alongside the Warren family as well as the Frizelle family – the original founders of James Frizelle Automotive, the largest car dealership in South East Queensland – which was bought by PWR in 2017. We believe PWR is well placed to gain market share due to its investment in Automalls in South Western Sydney and South East Queensland. There is also the potential to consolidate the fragmented car dealership market in Australia – where the largest participant Eagers Automotive has only 10% market share. On 12th March, the Australian government announced a range of strengthened regulations with respect to vehicle manufacturers and their relationship with Australian dealers including increased penalties of up to A$10 million for car manufacturers found guilty of systemic misconduct.

ERD – E-Road is a relatively new investment for the fund. It is a New Zealand based company that we have been tracking for a few years and used their listing on the ASX in September 2020 to establish a position and added to it in March this year.

E-Road is a hardware enabled SaaS company that provides integrated telematics solutions to government and commercial customers who have fleets of light and heavy trucks. The company has a long track record of organic growth with 30%+ revenue growth per annum over the past 5 years. Management are investing heavily in R&D (24-27% of revenues) and we are seeing new product launches increase ARPU (average revenue per unit) which is supporting revenue growth ahead of unit growth. The business has a number of tailwinds at the moment as road user charges are an important source of tax revenue for governments and E-Road's products make the capture of this data seamless and highly accurate for their customers. In addition, insurance companies are increasingly requiring customers to have a dashcam installed to avoid significant premium increases which is driving demand for their newly launched dashcam product. Following regulatory changes in the US that require all commercial fleets to have an ELD (electronic logging device) installed, paper-based driver logbooks are becoming increasingly digitized. Providing telematics is hugely competitive and there are dozens of players in the market however an independent comparison site has ranked E-Road's ELD as the #1 product in the market. When the law changed in 2018 in the US millions of customers had to rush into the market to buy an ELD before the deadline and with many signing up for a three-year term we think E-Road is in a strong position to acquire new customers as the three year anniversary comes up this year. The business has a strong balance sheet with no debt, the CEO owns more than 16% of the company and we think they have many years of strong growth ahead. This was confirmed at the most recent quarterly update with unit growth accelerating as the covid-19 delays dissipate.

PPS – Praemium was a positive contributor in April, with the company reporting quarterly flows during the month. From our perspective whilst the Australian net flows were marginally below our expectations for the quarter, the UK continued to show strong momentum. This is important from a share price perspective as the UK business has been a drag on earnings for some time, with signs that this should move to break-even soon. Further PPS has had a number of headwinds they have been navigating through (including the loss of a large client), however, these look to be coming to an end. We believe PPS should be well placed to continue to benefit from the structural growth evident in the platform space, at what we believe to be a reasonable valuation (which in our view is not the case with some of the other players in the platform space).

Detractors

RBL – Red Bubble detracted during the month as the new CEO Michael Ilczynski laid out his plans for the business over the next 3 years. He has set some aggressive medium-term targets which, if met will result in a share price that will be several multiples of the current price. The offset for this growth is a higher level of investment in the short term that will reduce margins to the mid single digit level. Given that Red Bubble have $100m in the bank, and an enormous global market to pursue, this makes a lot of sense to us. Having met with Michael recently in Melbourne, we were impressed at the number of growth options that he is considering. The market is also concerned that the next two quarters will be hard to comp as this time last year Red Bubble was selling a lot of higher margin masks particularly in the US. Whilst this will clearly dissipate, we remain convinced that the underlying business can grow at 20-30% for many years to come. We are encouraged by the company's focus on driving loyalty from its existing large base of active users. If they can demonstrate an improvement in repeat business from satisfied customers, the market will rerate the stock.

Top 10 Holdings Alphabetically

Stock
ALS LTD
AUSTAL LTD
CENTURIA CAPITAL STAPLED UNITS
GOODMAN GROUP UNITS
MONASH IVF GROUP LTD
NINE ENTERTAINMENT CO HOLDINGS LTD
PETER WARREN AUTOMOTIVE LTD
SONIC HEALTHCARE LTD
THE STAR ENTERTAINMENT GROUP LTD
VIRGIN MONEY UK CDI PLC

Source: BlackRock

Sector Exposure

Sector	Weight %
Consumer Discretionary	24.97
Industrials	12.94
Real Estate	12.71
Health Care	12.64
Communication Services	10.09
Information Technology	9.58
Financials	8.79
Consumer Staples	4.55
Materials	1.79
Utilities	-

Source: BlackRock

About the Fund

Investment Objective

The Fund aims to deliver returns that are 4-6% (before fees) p.a. above those of the S&P/ASX 300 Industrials Accumulation Index ex top 5 stocks by market capitalisation (Benchmark) over rolling 3-year periods.

Fund Strategy

Our investment style is based on the belief that a small team of experienced investment professionals focusing on the quality stocks in the market, will outperform over the long-term.

The Fund applies a fundamental approach that is focused on bottom up analysis, where detailed research is conducted prior to any investment decision. There is a strict focus on quality first and only those companies that meet the following quality filters will be considered for inclusion in the Fund:

- Quality management: We will not invest in a company without a rigorous assessment of the board and management team. This will generally involve direct contact with key personnel.
- Moderate debt levels: A company's interest coverage ratio measures how many times over that company could pay its current interest payment with its available earnings. We will not invest in any company with an interest coverage ratio of less than four times.
- Profits: We will only invest in businesses that can demonstrate a history of recurring profits.
- Superior businesses: We will only invest in quality businesses that can be clearly understood and explained in a simple manner.
- Environmental, social and governance (ESG): BlackRock has a dedicated Corporate Governance and Responsible Investment team. With their help, we will assess relevant information relating to the environmental, social and governance risks that may impact company valuations for each investment opportunity and incorporate this into the investment process.

We believe that the focus on quality first adds significant outperformance, particularly in times of market dislocation, where successful investing is as much about avoiding the losses as picking the winners.

Fund Details

BlackRock Concentrated Industrial Share Fund	
APIR Code (D Class)	BLK0012AU
Fund Size/strategy Size	$200m/$700m
Buy/Sell Spread	0.275%/0.275%
Management Fee	0.85%
Performance Fee	15%
Liquidity	Daily

^ The BlackRock Concentrated Industrial Share Fund ("Fund") is structured to allow for different classes of units with different fee structures. The same investment strategy is applied holistically across all unit classes in the Fund. The first class of units for the Fund ("class X") was launched on 9 December 2015 with more than $220m of assets. A second unit class ("class D") was launched for retail investors on 4 January 2016. This report is designed for class D unit holders. In order to illustrate the performance of the Fund's strategy across both classes since the official launch date of the Fund on the 9 December 2015, performance since inception quoted here is based on the period from 9 December 2015. Performance figures quoted here apply the fees charged to the class D units in order to provide class D unitholders with an estimated performance estimate over the period. This adjustment is estimated and unaudited and is for illustrative purposes only. Past performance is not a reliable indicator of future performance. Net of fees performance is calculated on exit-to-exit price basis, e.g. net of ongoing fees, performance fees and expenses.

^^ Performance figures represent past performance and are not indicative of future performance. Current performance may be higher or lower than that shown. Net performance figures are calculated after fund management fees and expenses, and assume reinvestment of distributions. Unless otherwise stated, performance for periods greater than one year is annualised and performance calculated to the last business day of the month.

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