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QUALIFIED INVESTORS ONLY



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## China A-Share Opportunities Fund

A sub-fund of BlackRock Global Funds (BGF)



Please note that the Fund typically has a risk of high volatility.

### Using big data to exploit pricing inefficiencies in the world's largest untapped market

The BlackRock Global Funds (BGF) China A-Share Opportunities Fund at a glance:

- An investment strategy with a proven track record in the institutional space, now accessible in a daily-dealing, UCITS structure
- Long-only, systematic active equity fund investing 100% in the newly opened up China A-share market via Stock Connect
- Innovative strategy blending together traditional quantitative insights with big data and machine learning signals including satellite images, social media and local language text analysis to uncover alpha opportunities in a market driven by retail investors and Government policy

**Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.**

### The China opportunity

At roughly \$8tn<sup>1</sup> in market value, China is one of the largest equity markets in the world, second only to the US, larger than Japan, and comparable to the rest of the emerging markets combined.<sup>2</sup> China also is home to over 2,000 listed liquid companies, second only to the US.<sup>2</sup> Further, the country's equity markets have historically demonstrated a lower correlation to the rest of the world, which may continue. Only 2% of the market is owned by foreign investors and BlackRock believes more than \$1tn of foreign money will flow into A-shares over time, particularly following the announcement by index provider MSCI that they will now include China A-shares in their emerging market indices, though this is not guaranteed.

1 World Federation of Exchanges, September 2017.  
2 World Bank, September 2017.

### What is a China A-share?

A-shares are the primary form of common stock issued by Chinese companies, listed in the People's Republic of China.

After years of growth and international attention, and despite its position as the economic powerhouse with the second largest GDP in the world, China's A-share markets have historically been largely closed off to foreign investors - until now. In recent years, new technology and more investor-friendly regulations have been implemented, changing how investors can access the market.

Until 2002, only domestic investors could purchase China A-shares. These rules have since been relaxed and are now available to foreign investors under a tightly controlled quota regime known as the Qualified Foreign Institutional Investor (QFII) Scheme.

Shanghai-Hong Kong Stock Connect took effect in 2014, as a cross-jurisdiction investment channel that connected the Shanghai Stock Exchange and the Hong Kong Stock Exchange. Investors in each market now have open, two-way access to trade in each other's markets using local brokers and clearing houses. Shenzhen Stock Connect opened in 2016 and in aggregate, international investors now have access to 1,300 stocks through both Shanghai and Shenzhen Stock Connect, allowing us to bring our institutional grade strategy into a fund providing daily liquidity to retail end investors.

## Introducing the China A-Share Opportunities Fund

The strategy was first launched in November 2012, packaged as a Cayman Islands-domiciled Fund and available only to institutional investors.

The strategy uses a combination of both traditional quantitative signals and more innovative big data and machine learning insights. Together, these tools are used to identify 300 companies for investment from a universe of 1,300 Chinese companies (accessible through the StockConnect programme), with the aim of generating consistent alpha on an annual basis, though this is not guaranteed.

The Fund aims for a 3-5% active risk level, has tight risk parameters around active weights on single stocks (+/- 3%) and sectors (+/- 5%), and targets a beta of 1.0 versus the MSCI China A-index. The investment strategy has successfully outperformed the index in both rising and falling markets based on monthly performance data of the existing Cayman-domiciled fund.

**Risk:** This Fund aims to generate a targeted rate of growth but the manager cannot guarantee that the intended target rate will be achieved. In addition, over time the target rate is subject to change at the manager's discretion.

### The portfolio management team

Systematic Active Equity (SAE) is one of the pioneers of quantitative investing with over 30 years' experience. We believe that superior investment outcomes are best achieved through a disciplined, objective process to managing return, risk and cost.

#### Portfolio managers

Dr Jeff Shen, PhD, co-chief investment officer of active equity, co-head of investments within SAE and head of emerging markets at BlackRock, leads the portfolio management team.

Dr Rui Zhao, PhD, CFA, is co-portfolio manager and has been developing and managing the China A-Shares strategy since inception in 2012.

The SAE team comprises more than 80 investment professionals across research, portfolio management and investment strategy, with the majority of personnel strategically located to the innovation centre of the world in San Francisco.

The SAE Asia Pacific team will manage the Fund from San Francisco with trading executed in Hong Kong.

### How big data feeds into our investment process

The team asks the same questions as fundamental investors but uses different tools and technology to answer those questions. We don't like certain companies, we like companies with certain characteristics and we use data to identify these characteristics that influence share price performance.

The techniques used on this Fund allow us to interpret huge amounts of structured and unstructured data, known as "big data", which we believe will help us outperform the broader market and generate alpha. These techniques are based on our views of the metrics that drive share price performance, but past performance is not a guide to the future.

We have a research-led, academic research process and once the rigorous Research Approval Board has approved an insight, or a 'signal', it is added into the underlying stock selection model, which scores stocks against various criteria to measure their potential for outperformance. Once the stock selection model has identified the companies in which we want to invest, we then carefully manage risk and factor trading costs into portfolio construction. We invest in many small positions, are fully invested at all times and take minimal industry deviations. While this should act to create diversification and lower risk, this will not always be the case. We focus on data and we focus on stocks. And we develop signals that allow us to understand the drivers of return in order to select those stocks. These signals fall into three categories: fundamentals, sentiment and macro themes.

## Fundamentals

How strong are the company's fundamentals with regard to valuations, earnings, balance sheet quality and cash flow? What does its future growth trajectory look like? In addition to traditional quantitative signals for China, we have developed signals that use big data to help capture a more accurate picture of economic activity. However, Chinese economic data can be opaque and this process cannot pick up every nuance.

Stocks underpinned by this category tend to demonstrate: improving and persistent profit levels, rising earnings' expectations, attractive valuations, and strong balance sheets and cash flows. We believe this should lead to share price outperformance, but this is not guaranteed.

## Sentiment

How much attention is the company attracting from investors? Analysing the behaviour of equity market participants such as retail investors and sell-side analysts can be a useful guide to expected share price performance, especially in a sentiment-driven market like China, though it will not always be predictive. This category includes a number of flow-based insights that help to forecast returns through analysis of supply/demand and other market dynamics.

Stocks that are underpinned by this category tend to be supported by: retail and broker stock views, third-party flows and trading opportunities from liquidity effects.

## Macro themes

Is the stock exposed to any policy or economic trends? Are there certain industries or styles that will dominate the portfolio through the influence of the broader macro environment?

Stocks that are underpinned by this category tend to be driven by: domestic economic conditions, macro backdrop if an import/export story, as well as individual industries and style influences.

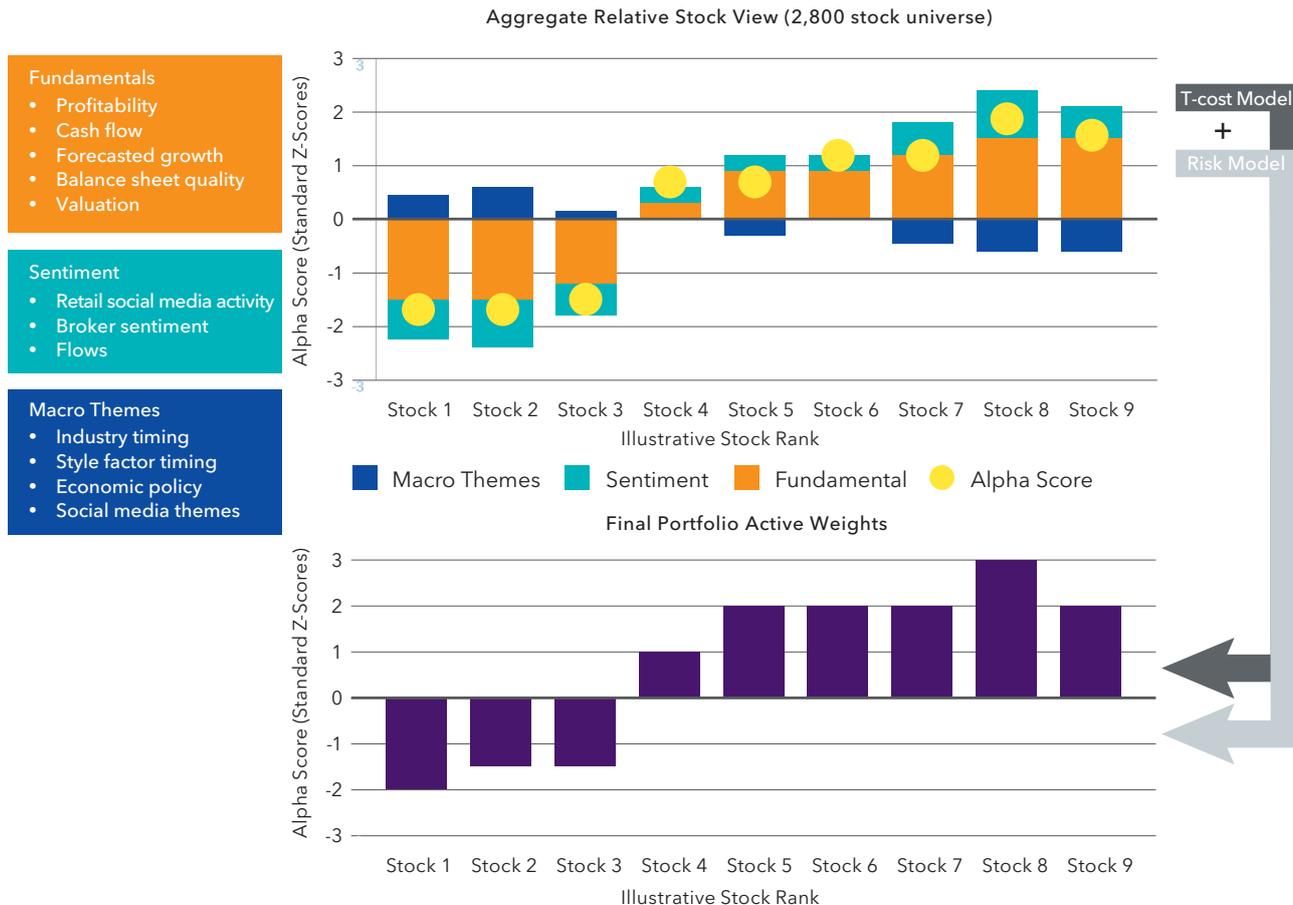
### Why China for big data?

China presents extensive opportunities for big data analysis. Every month, the country generates:

- 1,000 company disclosures
- 10,000 broker reports
- 100,000 stock news feeds
- 2 million stock-related blog posts
- 500 billion credit card transactions

Source: BlackRock as at 30 June 2017.

# Our investment process



Source: BlackRock, as at 30 June 2017, for illustration purposes only.

## Risks

All financial investments involve an element of risk. Therefore, the value of your investment and the income from it will vary and your initial investment amount cannot be guaranteed. The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Overseas investment will be affected by movements in currency exchange rates.

Emerging market investments are usually associated with higher investment risk than developed market investments. Therefore the value of these investments may be unpredictable and subject to greater variation.

Investment risk is concentrated in specific sectors, countries, currencies or companies. This means the Fund is more sensitive to any localised economic, market, political or regulatory events.

Smaller company investments are often associated with greater investment risk than those of larger company shares.

Investments in China are subject to certain additional risks, particularly regarding the ability to deal in equity securities in China due to issues relating to liquidity and the repatriation of capital. As a result, the Fund may choose to gain exposure to Chinese equities indirectly and may be unable to gain full exposure to Chinese equity markets.

The strategies utilised by the Fund involve the use of derivatives to facilitate certain investment management techniques including the establishment of both 'long' and 'synthetic short' positions and creation of market leverage for the purposes of increasing the economic exposure of a fund beyond the value of its net assets.

**Capital at risk.** The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time. Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

**Past Performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.**

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