

BLACKROCK WHOLESALE AUSTRALIAN SHARE FUND

BLACKROCK®

FUND UPDATE

31 December 2020

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
BlackRock Wholesale Australian Share Fund* (Net of Fees)	0.77	11.82	0.57	0.57	6.93	8.19	8.54
S&P/ASX 300 Accumulation Index	1.32	13.79	1.73	1.73	6.87	8.84	8.55
Outperformance (Net of Fees)	-0.55	-1.97	-1.17	-1.17	0.06	-0.65	-0.01

* The actual inception of the Fund is 31 December 1993, however the Fund changed from a Fundamental Strategy to a Scientific (quantitative)

Strategy on 14 June 2012. Please note that performance information displayed on BlackRock website from the date of the Fund's actual inception up to and including 14 June 2012 has been calculated for the fundamental strategy, whilst performance on and after 14 June 2012 has been calculated for the scientific strategy.

Past performance is not a reliable indicator of future performance. Gross returns are calculated before fees and taxes and assume reinvestment of distributions. Gross returns are provided for products offered to wholesale clients only who may be subject to differential fees. Please refer to the Fund's product disclosure statement for more information. Net performance is calculated on exit-to-exit price basis, e.g. net of ongoing fees, performance fees and expenses.

Performance Summary

Fund v Market

The S&P/ASX200 Accumulation Index performed strongly through the last quarter of 2020 rising +13.7%, ending the year +1.4% higher over the entire year. The strong fourth quarter performance was driven mainly by strong gains in November, with the local market managing to hold on through a volatile December. Strength in iron ore prices and Chinese demand for steel served to boost resources, and local economic data showed continued signs of improvement. However, local community transmission of the coronavirus, rising trade tensions with China and increasing global rates of infection served to dampen the market towards the end of the year. Globally many other equity markets also posted double digit gains, on generally improving expectations due to vaccines and broad government stimulus into 2021.

Over the quarter the Australian economy continued to recover. Inflation returning for the September quarter (+1.6%), and GDP rising +3.3% technically ending the recession, though growth remained negative (-3.8%) over the previous four quarters. In November the RBA cut the cash rate to a historic low of 10 basis point and announced they would start buying government bonds. Unemployment at 6.8% for November, helped by the end of the Victorian lockdown, remained somewhat elevated, though encouragingly part of this was due to the rise in participation rate. The strength in commodity prices and a weakened US dollar helped push the Australian dollar higher, reaching US0.77c by the end of the year, even with the record low interest rate.

Over the quarter the Energy sector (+26.3%) was the best performing sector notably after the market rotation catalysed by the November vaccine news. Similarly, Financials (+22.8%) were helped with the large banks outperforming over the second part of the quarter, whilst a handful of strongly performing names helped the Information Technology (+24.8%) do well. The other big driver for the benchmark was mining, especially in iron ore, which helped push the Materials sector (+15.3%) higher. More defensive sectors struggled, including Utilities (-5.4%), and Health Care (-1.1%).

Visit [BlackRock.com.au](https://www.blackrock.com.au) for further information, including:

- Market Insights & Commentary
- Fund Performance
- Unit Prices

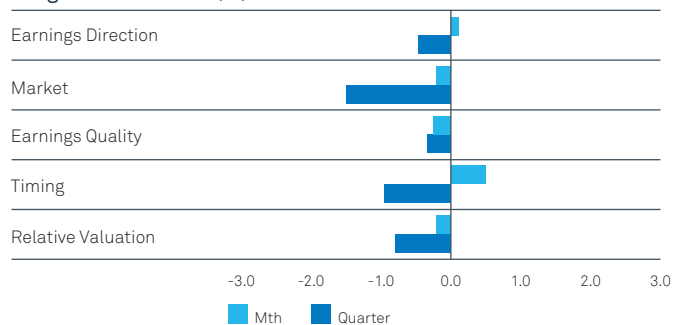
The strategy underperformed during the quarter; however, it slightly gained over the past 12 months. Materials was the worst performing sector as the decline in the price of gold after the vaccine announcement hurt the long positions in gold miners. Consumer Discretionary detracted due to unfavourable positioning in gaming as well as long positions in specialty retailers heavily selling off during the market rotation. Communications Services also lagged through unfavourable positioning in interactive media and services while short positions in IT services hurt the Information Technology. The Financials sector was the biggest contributor mostly helped by long positions in banks which performed well after the vaccine announcement as well as favourable positioning within capital markets. All insights detracted during the quarter, especially Market and Timing, followed by Relative Valuation, Earnings Direction, and Earnings Quality.

Investment Insights

The stock positions in the portfolio are based on combinations of our signals, which exhibited the following performance characteristics over the quarter:

- ▶ Relative Valuation signals were negative,
- ▶ Market signals were the most negative,
- ▶ Earnings Direction signals were negative,
- ▶ Earnings Quality signals were negative,
- ▶ Timing signals were negative.

Insight Performance (%)



Past performance is not an indicator of future performance
Source: BlackRock.

Sector Exposure (Long/Short Strategy)

Sector	Active Weight %
Communication Services	2.53
Consumer Discretionary	1.68
Consumer Staples	1.17
Energy	-0.92
Financials	-0.10
Health Care	0.15
Industrials	-1.27
Information Technology	-1.21
Materials	-0.59
Real Estate	0.22
Utilities	-1.35

Contributors/Detractors (Long/Short Strategy)

Contributors	Detractors
BENDIGO AND ADELAIDE BANK LTD	COMMONWEALTH BANK OF AUSTRALIA
CHALLENGER LTD	NATIONAL AUSTRALIA BANK LTD
STEADFAST GROUP LTD	SIMS LTD
UNIBAIL RODAMCO WE STAPLED UNITS	LINK ADMINISTRATION HLDG PTY LTD
WESTPAC BANKING CORPORATION CORP	BHP BILLITON PLC (GB)

Top Active Holdings (Long/Short Strategy)

Long	Short
AUSTRALIA AND NEW ZEALAND BANKING	MACQUARIE GROUP LTD DEF
WESTPAC BANKING CORPORATION CORP	NATIONAL AUSTRALIA BANK LTD
COLES GROUP LTD	WESFARMERS LTD
WOOLWORTHS GROUP LTD	COMMONWEALTH BANK OF AUSTRALIA
STEADFAST GROUP LTD	INSURANCE AUSTRALIA GROUP LTD

Stock Selection

On a market adjusted basis, amongst the top contributors for the quarter were a long position in Bendigo and Adelaide Bank (BEN) and a short position in APA Group (APA). Amongst the largest detractors were long positions in Newcrest Mining (NCM) and AusNet Services (AST).

Top Contributors

BEN – The long position in regional bank Bendigo and Adelaide Bank came from positive views in Market and Earnings Direction insights. There was no specific company news. Banks generally performed well during the quarter as investors sentiment improved on the vaccine news in November.

APA – The short position in leading Australian energy infrastructure company APA Group was a result of unfavourable Earnings Directions and Relative Valuation insights. The company has been experiencing issues with its gas plant in Victoria, causing delays and putting pressure on the share price. The share price fell further while trading ex-dividend in the last week of December.

Top Detractors

NCM – The long position in gold explorer Newcrest Mining was through favourable Market and Timing insights. The company has been lagging the rest of the sector for a while and the share price was also impacted by the less favourable price of gold during the quarter.

AST – The long position in energy provider AusNet Services was led by positive Earnings Direction, Market and Timing insights. With the challenging environment and uncertain economic outlook, management announced that it will cut its interim dividend and the share price fell.

About the Fund

Investment Objective

The Fund has two aims: to achieve capital growth over the long-term through investment in Australian shares and other securities and to provide investors with some tax-effective income through the distribution of franking credits. Overall, we aim to achieve this goal by outperforming the S&P/ASX 300 Accumulation Index ("Benchmark") over rolling five year periods.

Fund Strategy

The Fund, through its underlying investments, employs a "long/short" investment strategy. Unlike "long only" investments, which have just one source of return; that is buying stocks that are expected to rise in value, long/short strategies have two sources of prospective return. A fund that employs a long/short investment strategy can generate returns by owning stocks that the manager expects will rise in value (long). At the same time the fund can, sell (short) stocks that are expected to decrease in value.

In implementing the underlying index strategy BlackRock takes a full replication approach which means that wherever practical, we seek to hold every stock in the S&P/ASX 300 Accumulation Index, but will trade in less liquid stocks over time to minimize transaction costs.

To further counteract the impact of transaction costs we employ low-risk enhancement techniques in an attempt to add value and replicate more closely the return of the S&P/ASX 300 Accumulation Index. These low risk portfolio enhancement activities include the use of

- ▶ dividend reinvestment plans;
- ▶ futures to efficiently reinvest dividend distributions; and
- ▶ trading strategies to manage changes to the S&P/ASX 300

Should be considered by investors who ...

- ▶ Seek to gain competitive returns
- ▶ Require a Fund that applies rigor in its underlying investment philosophy and style
- ▶ Prefer a Fund with a proven track record in long-short investing
- ▶ Have a long term investment horizon.

Fund Details

BlackRock Wholesale Australian Share Fund	
APIR	PWA0823AU
Fund Size	61 mil
Buy/Sell Spread	0.275%/0.275%
Management Fee	0.95% p.a.

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