BLACKROCK CONCENTRATED INDUSTRIAL SHARE FUND

BLACKROCK®

FUND UPDATE **31 March 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)	-0.10	-0.84	-0.84	53.90	12.44	6.15	10.31	10.61
Benchmark[2]	3.98	2.27	2.27	35.83	7.81	8.65	9.11	9.34
Outperformance (Net of Fees)	-4.08	-3.11	-3.11	18.07	4.63	-2.50	1.20	1.26
S&P/ASX 300 (for comparative purposes)	2.30	4.15	4.15	38.34	8.74	9.73	10.32	10.03

[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)	-0.10	-0.84	-0.84	53.90	12.44	6.15	10.31	9.74

Please see ^^ in the footnotes of further information.

Performance Summary

Fund Review

March was the first month of pull back for the fund after many months of strong gains both in absolute terms and relative to the benchmark. Over the past 12 months, the fund remains well ahead of the market, having also delivered +18% alpha for investors.

The first quarter of the year normally coincides with Australian companies reporting their earnings and can be volatile, this year proved particularly interesting when combined with other market dynamics as the world recovers from the pandemic. Earnings results generally proved significantly better than expectations with 51% of companies beating on earnings and FY21 earnings growth expectations rising from 7% to 14.8%. Some of the factors driving this include 1) any guidance given by management was through an overly conservative lens relative to how the world has turned out 2) costs had been taken out of many companies preparing for a downturn that was not forthcoming, leading to better operating leverage and margins, 3) balance sheets were repaired in record numbers during Q1 and Q2 of 2020 leaving companies with excess liquidity enabling management teams to go on the offense in terms of investment.

The major theme however from a market reaction to these results was the desire from investors to rotate out of perceived Covid winners and into Covid losers who now look to recover into a re-opening economy supported by vaccine rollouts, record amounts of fiscal stimulus and very accommodative monetary policy by central banks.

The period was also characterised by stronger than expected growth and inflation around the world. The bond market had to adjust, and we saw a surge in bond yields, proving generally quite challenging for growth stocks whose valuations are usually much more sensitive to interest rate moves.

These short-term market movements can present great opportunities for active managers like us to invest in quality companies at attractive valuations. As a nimble and style agnostic fund, we also have the flexibility to pivot the portfolio quickly to the parts of the market where we see opportunities. Late last year, we had increased our exposure to some of the companies

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- Fund Performance
- Unit Prices

more exposed to the recovery theme/cyclical value stocks. As part of this rotation, we added positions in 2 banks for the first time since the inception of the fund 5 years ago and they have already added to performance. More recently, we were also able to take advantage of the rotation out of the perceived Covid winners to invest into quality names that had been overpriced. For example, we were pleased to re-enter our position in Xero at an attractive price after the stock was heavily sold off. Xero is a quality stock that we have liked for many years, have owned in the past and had exited at the start of the pandemic.

Fund Performance and Stock Selection

The fund returned -0.8% for the quarter, net of fees, underperforming its benchmark (ASX300 Industrials ex Top 5 Market Cap Index) return of +2.3% by -3.1%. Over the last 12 months, the fund has outperformed its benchmark by +18.1% and the broader market (as measured by the ASX300 Accumulation Index) by +15.6% over the same period.

On a market adjusted basis, amongst the top contributors for the quarter were our positions in Nine Entertainment (NEC) and Virgin Money UK (VUK) while Freedom Foods (FNP), NRW Holdings (NWH) and Kogan (KGN) were amongst the top detractors.

Contributors

NEC – As we have mentioned in previous updates, Nine is a core holding in the fund and one of the companies that we hold exposed to the recovery theme. Nine upgraded its guidance late last December due to the improved outlook on increased demand for Free TV advertising and as a result, the share price rallied in January. The strong recovery continued into February when Nine, as we had anticipated, announced strong results ahead of consensus. The structural growth achieved by NEC's digital assets were the key drivers to the results: Stan (where subs reached 2.3 million) 9Now (revenue growth of 30%) + Digital News subscriptions (revenues grew 26%). Overall digital EBITDA grew more than 50% and now comprise more than 40% of earnings. The more mature assets Channel 9 (free to air TV), Radio and Print also benefited, having gone through a structural costs reduction during the pandemic. During the quarter, Nine also announced the replacement for outgoing CEO Hugh Marks will be Mike Sneesby, CEO of Stan. Having met him several times during his time at Stan, we believe that he is well placed to run the company.

VUK – As one of the major performance contributors in February, we had introduced VUK as the first ever bank investment in the fund since its inception 5 years ago. As mentioned, we added our position as part of the fund's rotation to the cyclical/recovery theme. VUK posed an excellent risk/reward equation for a number of reasons: 1) Positive outlook for credit growth in the UK (where we believe we will see an acceleration over the next few quarters); 2) Stable to growing NIMs (reiterated at the Q1 trading update); 3) Benefiting from cost-out as they fully integrate the Clydesdale/Virgin Money combination (again 875m pound guidance on costs reiterated in the Q1 trading update). Add their current strong capital position and the positive economic outlook for the UK economy as it emerges from peak Covid levels (and an accelerated vaccine roll-out) with ongoing government support – which will likely mean loan loss charges remain relatively low.

Detractors

FNP – Freedom Foods had been in trading halt for nine months after accounting irregularities were uncovered and the stock resumed trading on 22 March. It started trading at 20 cents down from $3.01 last before rallying to 70 cents. While it was a relatively small holding out of the 31 names in the fund – and some internal valuation adjustments had already been made, it impacted performance negatively during the quarter, which is clearly very disappointing. Whilst the company still has decent potential over the medium to long term, it failed our quality filters (4x ebit interest cover) and has therefore been removed from the quality investment universe until the turnaround is on a stronger footing.

NWH – The stock had been a strong performer in January, and we had reduced our position size ahead of the February reporting season. Despite that, the weak share price detracted during the quarter. NWH disappointed the market with its 1H21 result impacted by much higher costs than expected. Management is confident that these costs will dissipate quickly and what is in fact 'one-off'. For example, the lack of fly-in-fly-out workforce in remote projects such as in the Pilbara created issues. We continue to believe that NRW Holdings is well placed to benefit from the strong revenue environment with favourable end-market conditions with increased expectation for government infrastructure spending, mining conditions and capex.

KGN – After many months of outperformance, Kogan pulled back this quarter. Like many of the Covid beneficiaries, the stock has been heavily sold off in the past few months as part of the market rotation.

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
REDBUBBLE LTD
SONIC HEALTHCARE LTD
THE STAR ENTERTAINMENT GROUP LTD
VIRGIN MONEY UK CDI PLC

Source: BlackRock

Sector Exposure

Sector	Weight %
Consumer Discretionary	18.16
Real Estate	14.66
Health Care	12.97
Industrials	12.52
Communication Services	10.40
Information Technology	8.83
Financials	8.63
Consumer Staples	5.74
Materials	3.15
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	$189m/$683m
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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