BLACKROCK CONCENTRATED TOTAL RETURN SHARE FUND

BLACKROCK®

FUND UPDATE **31 March 2021**

Investment Performance (%)

	1 Mth	3 Mths	CYTD	1 Yr	2 Yrs	3 Yrs	Since Incep pa*
BlackRock Concentrated Total Return Share Fund (Class E1) **(Net of Fees)**	0.48	2.78	2.78	54.80	15.73	9.10	13.75
BlackRock Concentrated Total Return Share Fund (Class E2) **(Net of Fees)**	0.52	2.87	2.87	55.37	16.18	9.23	12.90
S&P ASX 300 (for comparative purposes)	2.30	4.15	4.15	38.34	8.74	9.73	9.45

Fund inception: 25/10/2016.

Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised. Performance is calculated in Australian dollars and assumes reinvestment of distributions. Gross performance is calculated gross of ongoing fees and expenses. Net performance is calculated on exit-to-exit price basis, e.g. net of ongoing fees and expenses. 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.

Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index.

Performance Summary

Fund Review

The fund continued to deliver positive returns during the March, though it underperformed the broader market. Over the past 12 months, the fund remains well ahead of the market by +16.5%, having delivered +54.8% for investors, net of fees.

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 more exposed to the recovery theme/cyclical value stocks. As part of this rotation, we added

Portfolio Management Team

Madeleine Beaumont,
Portfolio Manager

Charles Lanchester,
Portfolio Manager

Sam Theodore,
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- Unit Prices

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 delivered a return of +2.7% for the quarter, net of fees, however it underperformed the broader market as measured by the ASX300 Accumulation Index. Over the past 12 months, the fund has delivered +54.8% and continues to be well ahead of the broader market return of +38.3%.

On a market adjusted basis, amongst the top contributors for the quarter were our positions in Nine Entertainment (NEC), Virgin Money UK (VUK) and Domino's Pizza (DMP) 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. 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.

DMP – Dominos rallied +14% in the last 3 months, after reporting a strong H1FY21 with +16.5% network sales growth and +32.3% operating profit growth. The impact of Covid is quite complex for DMP. The obvious positive is that people have increased takeaway food consumption during extended periods of lockdown and Pizza has been a growth category. This has been particularly pronounced in Europe, where Dominos like for like sales growth grew +6.4% and Japan where like for like sales grew +36.4% in 1HFY21. However offsetting this, in markets such as Australia and the Netherlands, the take-out consumption occasions reduced substantially during Covid. Also, in these more mature markets, parties and sports events are a big driver of consumption occasions and sales growth was more subdued in these markets. Overall, we do expect that like for like sales growth will slow from +8.4% in the half to be more in line with the long-term target growth rate of 3-5%. The management of Dominos are using the excess cash flow generation from Covid to reinvest back in the business. This includes increasing TV advertising in Japan and Europe to grow brand awareness and accelerating the organic store opening programme particularly in Japan and France. While we have reduced our position in DMP into strength, we view Dominos as one of the best placed companies in the ASX to grow cash flow and dividends for many years to come. Our ESG team has also been working with the governance team at Dominos to improve governance processes.

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 32 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
Stock
ALS LTD
BREVILLE GROUP LTD
DOMINOS PIZZA ENTERPRISES LTD
IMRICOR MEDICAL SYSTEMS CDI INC
MONASH IVF GROUP LTD
NINE ENTERTAINMENT CO HOLDINGS LTD
THE STAR ENTERTAINMENT GROUP LTD
TREASURY WINE ESTATES LTD
VIRGIN MONEY UK CDI PLC
XERO LTD

Source: BlackRock

Sector Exposure

Sector	Weight %
Communication Services	8.73
Consumer Discretionary	22.51
Consumer Staples	6.08
Financials	14.13
Health Care	18.15
Industrials	8.41
Information Technology	5.59
Materials	6.17
Real Estate	4.01

Source: BlackRock

About the Fund

Investment Objective

Seeks to achieve Total Returns over rolling 3 year periods by investing in a concentrated portfolio of Australian shares.

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 Total Return Share Fund	
APIR Code (E1 Class)	BLK0021AU
APIR Code (E2 Class)	BLK0022AU
Fund Size	44 mil
Buy/Sell Spread	0.275%/0.275%
Management Fee (Class E1)	1.25% p.a (incl. GST)
Management Fee (Class E2)	0.85% p.a (incl. GST)
Performance Fee (Class E2)	15%
Liquidity	Daily

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