Q1 2022 Quarterly Commentary

BlackRock Global Unconstrained Equity Fund (UK)

Market Overview

The market environment proved exceptionally turbulent in Q1 2022. Initially, a very significant change in expectations for interest rates in the US initially caused a wholesale repositioning within the market, that can broadly be characterized as selling ‘growth’ stocks in favour of ‘value’ names, regardless of the stock-specific outlook for the underlying businesses. We have seen such narrative-driven moves before but the extent of this one was extreme with the US growth factor recording its largest three month move in the history of our internal risk models (starting from the mid-90s).

As the quarter progressed, escalating geopolitical tensions drove further volatility, culminating in Russia’s invasion of Ukraine. Of course, this is first and foremost a humanitarian concern and our thoughts are with all those impacted by these shocking developments which mark the largest military action in Europe since 1945. While the Ukrainian economy is small in a global context, the West’s response in the form of economic sanctions towards Russia has been strong and coordinated. This has significant knock-on effects, most notably for energy security in Europe, which was already stressed before the war, while supplies of key inputs for fertilizer and the growing of wheat raised the likelihood of higher food prices. A further COVID-19 wave in China created more supply chain uncertainty, with lockdowns enforced across major cities in an attempt to manage the tragic impact on the spread of the virus on local populations. The net effect of these developments led to outperformance especially for commodity-linked stocks – indeed the types of companies which can benefit from short-term supply disruptions or rotations of positioning, but which are very rarely candidates for inclusion in a portfolio seeking to invest in companies that can sustain high returns for up to a decade and compound earnings and cash flows through time.

Performance Update

The quarter proved exceptionally challenging for absolute and relative performance, although short-term outcomes are not something we attempt to manage. Instead, we focus on the long-term health of the businesses we own and not mark-to-market share price moves or sentiment shifts. We believe that the rotation and sell-off have put exceptional businesses ‘on sale’ offering a potentially attractive entry point to companies that we believe are exceptional. Indeed, a glance at earnings releases for Q4 2021 indicates positive developments, with 8 of the Fund’s holdings seeing earnings upgrades while 3 saw downgrades due to higher long-term investment, the disposal of an underperforming business and short-term supply chain issues causing the downgrades across the three companies respectively.

<table>
<thead>
<tr>
<th>Fund (D class GBP)</th>
<th>QTD to 31.03.22</th>
<th>1 year to 31.03.22</th>
<th>31.12.20 to 31.12.21</th>
<th>21.01.20* to 31.12.20</th>
<th>Inception* to 31.12.21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund (D class GBP)</td>
<td>-9.67%</td>
<td>22.24%</td>
<td>34.42%</td>
<td>19.44%</td>
<td>45.02%</td>
</tr>
<tr>
<td>MSCI World Index</td>
<td>-2.43%</td>
<td>15.39%</td>
<td>22.94%</td>
<td>8.35%</td>
<td>29.96%</td>
</tr>
<tr>
<td>Active</td>
<td>-7.24%</td>
<td>6.85%</td>
<td>11.48%</td>
<td>11.09%</td>
<td>15.06%</td>
</tr>
</tbody>
</table>

The figures shown relate to past performance. Past performance is not a reliable indicator of future results and should not be the sole factor of consideration when selecting a product or strategy. *Fund inception 21 January 2020. Returns are shown net of fees for an investment in the GBP D class (ISIN: GB00BFK3ML85) which is subject to a 0.75% management fee plus other expenses. Performance of other share classes may vary. Market is represented by the MSCI World Index. The Investment Manager takes into consideration the MSCI World Index for risk management purposes. This benchmark has been chosen because the Investment Manager has determined that it is representative of the investment universe of the Fund and should be used by unitholders to compare the performance of the Fund. The latest performance data for all share classes can be found on our website: www.BlackRock.com

Portfolio Update

A number of stocks in the portfolio sold-off despite positive incremental fundamental data. Examples include ASML, which guided for 20% revenue growth in 2022 and announced it had received its first order for its next generation technology, and Intuit where full year guidance looks very conservative based on trading in its Quickbooks and Credit Karma divisions. The company continues to execute extremely well on acquisitions and production cross-selling.

Q1 saw a number of companies in the portfolio announce deals of varying size, with equally varying reactions from the market. Masimo announced the US $1bn acquisition of Sound United which rapidly saw more than four times that amount wiped from the company’s market cap. It was our largest detractor from relative returns as investors struggled to see the strategic logic for the deal. While it will be immediately accretive to earnings, the acquisition is dilutive to revenue growth rates and margins, and also diversifies the company’s exposure away from pure healthcare. The business will use the acquisition to expand further into home care, seeking to build on the success of its SafetyNet product, and also plan to launch a consumer wearable. It is clear that management have a strong vision for expanding the long-term total addressable market of the company and we felt the share price reaction was overzealous. Late in the quarter, the company downgraded its Q1 revenue due to shipping and supply chain

FOR PROFESSIONAL CLIENTS ONLY
issues. The company notes that demand and orders are above guidance and consensus and they expect all the revenue to be made up over the remainder of the year.

Other deals announced over the quarter included Microsoft’s plan to acquire Activision Blizzard and AutoTrader’s acquisition of Autorama. Microsoft’s announcement is its largest deal to date and significantly bolsters its consumer offering. The deal will make Microsoft the world’s third largest gaming publisher and is suggestive of its plans to build out its gaming subscription service. Microsoft has a very strong track record in deal-making, often being very opportunistic in buying unloved but highly interesting assets at an attractive price point. Activision appears to be another one of these with Microsoft paying just 21x 2023 earnings for the company, which equates to one year’s free cash flow for Microsoft. AutoTrader’s move expands the company’s presence and capability in new car leasing and gives it expertise in transactions as the company look to accelerate its platform for digital car buying. Although Autorama is loss making today, we would expect that existing marketing costs can be significantly reduced, and believe the deal provides good long-term options for AutoTrader as they look to develop and expand new business verticals.

The Fund benefitted from positions in Mastercard and CME. Mastercard is seen by some as an ‘inflation hedge’ as charges are linked to the value of transactions rather than the volume. Fears of disruption (which we felt represented poor analysis) also receded somewhat, and the company reaffirmed its 2022-2024 guidance over the period for high-teens net revenue CAGR and low-twenties EPS CAGR. CME is generally counter-cyclical during times of market stress and shallow recessions as it benefits from increased trading activity around market volatility. CME is the largest derivatives trading exchange globally by volume and trades in six asset verticals: US treasury futures, equity index futures, metals futures, WTI oil futures, agricultural commodity futures and FX futures. Being dominant in each of these creates a liquidity flywheel which is hard to disrupt.

Elsewhere, Costco, the only consumer staples business owned in the portfolio, continued to exhibit exceptional execution. Unlike other staples businesses or retailers, Costco’s revenues are driven by membership fees with the firm offering value to customers through highly competitive pricing. The company has renewal rates of over 90% in north America and plans to open 20% more stores in the US in 2022 vs 2021. Other consumer businesses in the portfolio suffered from share price weakness due to the combination of rising input costs and tighter consumer spending – especially those targeting the lower end consumer, which was set to see declining spending power this year in US stores in 2022.

Portfolio Activity and Business Update

No stocks were added or removed from the portfolio over the quarter. Positions in Masimo and CME were trimmed to create room for a fuller position size in Floor & Décor, which was initially added to the portfolio in Q3 2021.

Outlook

Persistently high inflation, high food and energy prices and tightening financial conditions have all served to cloud the economic outlook through Q1. The combination of rising input costs and tighter consumer spending will prove a challenge for many businesses – especially those targeting the lower end consumer, which was set to see declining spending power this year in US before the disruption caused by Russia’s invasion of Ukraine. China’s zero COVID policy also presents challenges for companies sourcing higher volume goods from Asia. In this context, we believe companies with pricing power, asset light business models and defensive cash flow characteristics can significantly differentiate themselves from the average – these are the typical characteristics of many of the Fund’s holdings which, despite challenged performance in Q1, we are confident can deliver during a more challenging economic cycle ahead.

Source: BlackRock, 31 March 2022

Reference to individual investments mentioned in this communication is for illustrative purposes only and should not be construed as investment advice or investment recommendation. The specific companies identified and described above do not represent all of the companies purchased or sold, and no assumptions should be made that the companies identified and discussed were or will be profitable.

The Fund is actively managed and the Investment Manager has discretion to select the Fund’s investments. The Fund has an unconstrained investment style. However, the Investment Manager uses the MSCI World Index (the “Index”) for risk management purposes to ensure that the active risk (i.e. degree of deviation from the index) taken by the Fund remains appropriate given the Fund’s investment objective and policy. The Investment Manager is not bound by the components or weighting of the Index when selecting investments. The Investment Manager may also use its discretion to invest in securities not included in the Index in order to take advantage of specific investment opportunities. The Fund’s portfolio holdings are expected to deviate materially from the Index.
Important Information

Risk Warnings

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

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.

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.

Fund Specific Risks

Equity risk

The value of equities and equity-related securities can be affected by daily stock market movements. Other influential factors include political, economic news, company earnings and significant corporate events.

Unconstrained investment risk

Funds may have an unconstrained investment style (i.e. the Investment Manager will not take into consideration the specific constituents of any benchmark index when selecting investments for such Funds). Accordingly, the active risk (i.e. the degree of deviation between the returns of any such Fund and the returns of any benchmark indices which are broadly representative of the universe of securities in which such Funds invest) taken on by such Funds is expected to be significant. As a result, such Funds will be particularly reliant on the ability of the Investment Manager to identify securities that perform well, and the failure of the Investment Manager to do so may result in such Funds underperforming market performance (as represented by benchmark indices) and/or suffering capital losses, which may be significant. There can be no guarantee that such Funds will outperform, or indeed match the performance of, any benchmark index.

Concentration risk

Investment risk is concentrated in specific sectors, countries, currencies or companies or because the Fund has only a small number of investments. This means the Fund is more sensitive to any localised economic, market, political or regulatory events. Concentrated investment exposure by the Fund could magnify the other risks to which the Fund is exposed.

Emerging markets risk

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.

ESG policy risk

The Fund seeks to exclude companies engaging in certain activities inconsistent with ESG criteria. Investors should therefore make a personal ethical assessment of the Fund’s ESG screening prior to investment. Such ESG screening may adversely affect the value of the Fund’s investments compared to a fund without such screening.

Counterparty risk

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.

Additional Information

Important Information. This material is for distribution to professional clients only (as defined by the Financial Conduct Authority or MiFID Rules) should not be relied upon by any other persons.

Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: + 44 (0)20 7743 3000. Registered in England and Wales No. 02020394. For your protection telephone calls are usually recorded. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock.

If you are an intermediary or third-party distributor, you must only disseminate this material to other Professional Investors as permitted in the above specified jurisdictions and in accordance with applicable laws and regulations.

Any research in this document has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

© 2022 BlackRock, Inc. All Rights reserved. BLACKROCK, BLACKROCK SOLUTIONS, iSHARES, BUILD ON BLACKROCK and SO WHAT DO I DO WITH MY MONEY are trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners

FOR PROFESSIONAL CLIENTS ONLY