

BlackRock Global Unconstrained Equity Fund (AUST)

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FUND UPDATE

30 June 2024

Investment Performance (%)

| | 1 Mth | 3 Mths | YTD | 1 Yr | 3 Yrs | 5 Yrs | Since Incep |
|---|-------|--------|-------|------|-------|-------|-------------|
| BlackRock Global Unconstrained Equity Fund (Aust) (Class D) (Net of Fees) | 4.42 | -2.11 | 14.56 | - | - | - | 23.66 |
| MSCI All Country World Index NET (in AUD) | 1.61 | 0.26 | 14.17 | - | - | - | 19.42 |
| Outperformance (Class D) (Net of Fees) | 2.82 | -2.37 | 0.39 | - | - | - | 4.24 |
| BlackRock Global Unconstrained Equity Fund (Aust) (Class S) (Net of Fees) | 4.48 | -1.95 | 14.19 | - | - | - | 22.66 |
| MSCI All Country World Index NET (in AUD) | 1.61 | 0.26 | 14.17 | - | - | - | 19.42 |
| Outperformance (Class S) (Net of Fees) | 2.87 | -2.21 | 0.02 | - | - | - | 3.25 |

¹ Fund inception: 09/28/2023.

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.

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- Market Insights & Commentary
- Fund Performance
- Unit Prices

Global Impact June 2024

Market Overview

Global equities (as represented by the MSCI World Index) advanced in the second quarter, but not without some volatility. Early in the period, the market sold off in response to geopolitical uncertainty and a higher-than-expected US inflation print. Through May and June, US inflation data cooled, driving renewed investor optimism about the economic outlook and the prospect of rate cuts later in the year. In Europe, inflation data continued to reassure, and the European Central Bank (ECB) announced its first rate cut of the cycle.

Within the market, the information technology and communication services sectors continued to lead as artificial intelligence (AI) trends remained firmly in focus. Q1 results were mixed within these sectors – the large mega caps all delivered solid prints, while some smaller software providers missed expectations, citing a weaker macro backdrop and AI taking mindshare as the key drivers for a slowdown in demand. Although the economy remains resilient there are certainly pockets where growth is moderating. Interestingly just 27% of stocks in the MSCI World Index have outperformed the market year-to-date and 47% of companies have delivered negative returns despite the market being up over 10%.

Performance review

The Fund lagged the market in Q2. In absolute terms, consumer cyclicals were the most challenging area of the Fund, while industrial cyclicals performed strongly.

AI trends continued to dominate the market in Q2. Most notably, Nvidia (which is not owned in Global Unconstrained Equity) showed the scale of investment in the industry when it reported its Q1 results. Sales growth was the strongest of any mega cap (+262% year-on-year). Not owning the shares weighed on the Fund's relative performance. However, our position in **ASML**, which sits at the base of all leading-edge semiconductor equipment manufacturing, and thus also benefits from the rapid growth in AI build-out, aided returns. After a record Q4 order intake of EUR9.2bn, Q1 was weaker (and below

consensus) at EUR3.6bn. Although this initially left the market disappointed, the shares went on to recover as a number of hyperscalers (including **Microsoft**, **Alphabet** and **Meta** which are owned in Global Unconstrained Equity) announced larger than expected investment programmes to capture the nascent opportunity in AI. Of relevance for the longer-term investment case, ASML has now shipped its next generation EUV lithography machine, the NXE3800. The company report that it has 37.5% better productivity, thus supporting a higher average selling price. Negotiations have also started for ASML's new lithography platform which uses a high numerical aperture platform and the backlog of orders is now building for this product.

Luxury goods positions, most notably **LVMH**, weighed on performance. At its Q1 results, LVMH reported group organic growth of +3% which was inline with market expectations, but reported revenues fell on a larger than expected FX headwind. Additionally, some sell-side brokers adjusted their near-term margin expectations down following management commentary during conference season. We are seeing a cyclical slowdown across the luxury market following a couple of years of exceptional growth. This does not give us cause for concern in our long-term view of the company. Also within consumer cyclicals, our position in **Floor and Decor** detracted from relative performance. The interest rate environment in the US continues to put pressure on the housing market. Floor is particularly exposed to existing home sales which remain subdued given past mortgage rates were significantly lower than the rates currently available. The company continues to pursue its strategy of new store rollouts, which together with price and product differentiation, should aid in its ambition of taking market share over time.

Novo Nordisk was the Fund's top contributor in Q2. The company's sales results beat expectations and guidance for the full year was raised slightly to 19-27% (with consensus expecting the company to achieve sales towards the top end of this range). The long-term opportunity remains compelling to our minds, with two pieces of positive news flow during the quarter serving to reinforce this. Firstly, Wegovy (the company's weight loss drug) gained approval in China. This was expected for 2024 and volumes will likely be capped initially, but China presents a huge weight-loss market opportunity for the company longer-term, as does the roll out of GLP-1s for diabetes which currently only account for ~3% of diabetes prescriptions in China compared to 6% (and growing) globally. Novo has >50% market share in GLP-1s, which is helping to improve its market share in overall diabetes treatment over time. Additionally, the company announced a US\$4.1bn investment to build a second fill and finish manufacturing facility in Clayton, North Carolina. Construction is underway and will gradually be finalised between 2027-2029. This is in addition to the previously announced Catalent deal which should close later this year. The result of these investments means a huge step-up in production capacity from 2026, which should help ensure Novo can capitalise on the weight loss market opportunity. Also within healthcare, a position in **Intuitive Surgical** performed well. In January, Intuitive confirmed its new robot, the Da Vinci 5, and in May provided plans for the rollout. The company has guided for opex growth of 11-15% and gross margins down slightly year-on-year as a result of the launch, but we would expect the new system to fuel strong earnings growth in due course.

Changes

We made no new additions or divestments from the portfolio in the quarter.

Outlook

The prolonged high interest rate environment is evidently taking a toll in some areas of the market. Even as the overall economy proves resilient, industry-specific slowdowns arise. These are not to be feared for the long-term investor – cyclical issues typically play through over the course of a few years. A far greater risk in our eyes, is attempting to time the onset, duration and recovery

of such periods, in addition to the market moves that result. The potential to "buy high – sell low" is a perennial one and one that risks locking in losses which, had a long-term view been taken, could have been avoided.

That is why in Global Unconstrained we do not look to trade around cyclical events, market sentiment or fluctuations in interest rate expectations. We concentrate our capital in high-quality businesses that can sustain compelling returns over long periods with proven track records. Despite the market's ongoing focus on interest rates, and the short-term share price volatility this creates, over the long-term market performance is driven by fundamentals: earnings growth and dividends, which is why we adopt a deeply fundamental approach in our process. Additionally, multiple structural tailwinds are intersecting short-term industry cycles driven by technological advances, changes in the geopolitical landscape and shifts in human behaviour. These can create compelling long-term opportunities for companies. We believe that a concentrated portfolio, able to tap into the leaders and avoid the laggards may yield attractive long-term outcomes for investors.

Top Holdings

| Holding | Weight % |
|----------------------------|----------|
| MICROSOFT CORP | 9.80 |
| ASML HOLDING NV | 9.74 |
| NOVO NORDISK CLASS B | 9.68 |
| CADENCE DESIGN SYSTEMS INC | 6.46 |
| ALPHABET INC CLASS C | 4.98 |
| META PLATFORMS INC CLASS A | 4.89 |
| INTUITIVE SURGICAL INC | 4.82 |
| S&P GLOBAL INC | 4.75 |
| MASTERCARD INC CLASS A | 4.60 |
| FERRARI NV | 4.59 |

Country Exposure

| Country | Weight % |
|----------------|----------|
| United States | 65.76 |
| Netherlands | 9.74 |
| Denmark | 9.68 |
| France | 7.13 |
| Italy | 4.59 |
| United Kingdom | 2.62 |

About the Fund

Investment Objective

The investment objective of the Fund is to achieve long-term capital growth by investing in a global portfolio of equity securities.

Investment Strategy

The Fund aims to achieve its investment objective through investing in the BlackRock Global Unconstrained Equity Fund (Underlying Fund). The Underlying Fund is domiciled in Ireland and is a sub-fund of BlackRock Funds I ICAV, an Irish Collective Asset-management Vehicle. The Underlying Fund is managed by BlackRock Asset Management Ireland Limited and BlackRock Investment Management (UK) Limited has been appointed as Investment Manager (Investment Manager).

The Underlying Fund seeks to achieve its objective by investing at least 80% of its total assets in equity securities and equity-related securities (namely American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs)) of companies domiciled in or exercising a significant part of their economic activity in global developed markets.

Investment decisions will be based on fundamental, company-specific research to identify and select the equity and equity-related securities that, in the opinion of the Investment Manager, have the potential to produce attractive long-term capital growth. The Investment Manager's research looks at a range of factors when selecting companies in which to invest including, but not limited to, an analysis of their competitive advantages, the impact of structural (such as economic, demographic or technological) changes, the quality of management teams and their financial discipline. The Fund's portfolio is expected to be concentrated.

The Fund and the Underlying Fund have an unconstrained investment style (that is, it will not take a benchmark index into account when selecting investments) and is not subject to any restrictions on the proportion of its assets that must be invested in any particular country, region or industry sector.

The Underlying Fund applies exclusionary screens to the companies within its investment universe. The Investment Manager then applies its proprietary Fundamental Insights Methodology to identify companies that would otherwise have been excluded by the exclusionary screens but that it considers to be appropriate for investment on the basis that they are "in transition" and focused on meeting sustainability criteria over time.

Where a company is identified as meeting the criteria in the Fundamental Insights Methodology for investment and is approved in accordance with the Methodology, it is eligible to be held by the Underlying Fund. Such companies are regularly reviewed.

In the event that the Investment Manager determines that a company fails the criteria in the Fundamental Insights Methodology (in whole or in part and at any time) or it is not engaging with the Investment Adviser on a satisfactory basis, it will be considered for divestment by the Underlying Fund in accordance with the Fundamental Insights Methodology.

Should be considered by investors who ...

- ▶ Seek to invest in a Fund which provides investors with access to a professionally managed portfolio of global equity securities.
- ▶ Have a long-term investment horizon. The securities held in the Underlying Fund's portfolio have been selected based on BlackRock's view that they have a sustained competitive advantage, and so will typically be held over a long-term horizon.
- ▶ Want to invest into an actively managed fund without benchmark constraints. In selecting securities for the Underlying Fund's portfolio, the investment adviser is unconstrained by country, region or capitalisation limits.

Fund Details

| BlackRock Global Unconstrained Equity Fund (Aust) (Class D) | |
|---|--------------|
| APIR Code | BLK9425AU |
| Management Fee | 0.95% |
| Fund Size | \$107,708.74 |

| BlackRock Global Unconstrained Equity Fund (Aust) (Class S) | |
|---|-------------|
| APIR Code | BLK2713AU |
| Management Fee | 0.30% |
| Fund Size | \$30,666.00 |

* Fund size of the Australian Fund - excludes the AUM of the Underlying Fund into which the Fund invests.

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