



# Product Review

## BlackRock Cash Fund (Class S Units)

ISSUE DATE 22-01-2024

### Key Information

INVESTMENT TYPE	UNITISED REGISTERED MANAGED INVESTMENT SCHEME.
APIR CODE	BLK9445AU
PDS OBJECTIVE	THE FUND AIMS TO PROVIDE INVESTORS WITH THE PERFORMANCE OF ITS BENCHMARK, THE BLOOMBERG AUSBOND BANK BILL INDEX, BEFORE FEES AND EXPENSES.
FUND INCEPTION	MAY 2023
FUND SIZE	\$616.41M
INDEX PROVIDER	BLOOMBERG
UNDERLYING INDEX	BLOOMBERG AUSBOND BANK BILL INDEX
FUND MANAGER	BLACKROCK INVESTMENT MANAGEMENT (AUSTRALIA) LIMITED
RESPONSIBLE ENTITY	BLACKROCK INVESTMENT MANAGEMENT (AUSTRALIA) LIMITED
OWNERSHIP	WHOLLY OWNED SUBSIDIARY OF BLACKROCK, INC
DISTRIBUTION FREQUENCY	QUARTERLY
DERIVATIVE USE	MAY BE USED TO MANAGE RISK AND RETURN (CANNOT BE USED TO LEVERAGE THE FUND)
SECURITIES LENDING	NO

### Fees & costs (% per annum)

MANAGEMENT FEES AND COSTS	0.1
PERFORMANCE FEE COSTS	0
NET TRANSACTION COSTS	0
NET OF BUY SPREAD / SELL SPREAD	0 / 0
ANNUAL FEES AND COSTS (PDS)	0.1

WHERE MANAGEMENT FEES & COSTS IS NULL "-" NO DATA HAS BEEN PROVIDED AND THE ANNUAL FEES & COSTS (PDS) CANNOT BE CALCULATED. REFER TO THE PDS FOR THE FEE INFORMATION.

### Top 10 holdings (at 31-10-2023)

NCD	65.1%
CASH	26.5%
LIMITED LIQUIDITY TD	6.7%
COMMERCIAL PAPER	1.7%

### What this Rating means

The 'Highly Recommended Index' rating indicates that Lonsec has very strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered a preferred entry point to this asset class or strategy.

### Strengths

- BlackRock is a leading global manager of passive strategies which allows investors to enjoy the benefits of its scale, experience and resources.
- Low fees for a diversified and liquid cash fund.

### Weaknesses

- The Fund may have exposure to less liquid notice accounts or floating rate notes.
- An investment in the Fund is not a deposit with a bank and investors do not receive the benefit of any government guarantee associated with bank deposits.

### Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK	●		
CAPITAL VOLATILITY	●		
CREDIT RISK	●		
INTEREST RATE RISK	●		
SECURITY LIQUIDITY RISK	●		
SECURITY CONCENTRATION RISK		●	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

### BIometrics

#### Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE	●						

A Standard Risk Measure score of 1 equates to a Risk Label of 'Very Low' and an estimated number of negative annual returns over any 20 year period of less than 0.5. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW	MODERATE	HIGH
RISK TO INCOME	●		

### Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY	●		
ESG	●		

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## Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE	●		
FEES VS. ASSET CLASS	●		
FEES VS. SUB-SECTOR	●		

Fee BIometrics are a function of expected total fee as a percentage of expected total return.

## What is this Fund?

- BlackRock Cash Fund ('the Fund') provides investors with exposure to Australian dollar short-term money market securities, with consideration to liquidity, credit, and interest rate characteristics of the Underlying Index. Furthermore, tight portfolio construction rules mean securities are selected with consideration to rating, sector, maturity, liquidity, and underlying credit fundamentals. The Fund is passively managed by BlackRock ('the Manager') and aims to track the Bloomberg AusBond Bank Bill Index ('the Underlying Index').
- The Fund's investment universe is restricted to bank and corporate securities that have a short term credit rating of at least A1, while most of the investments are rated A1+, the highest possible short term rating. The Fund may also hold up to 10% in term deposits or notice period accounts.
- The Fund's PDS, dated 25 October 2023, disclosed Annual Fees and Costs ('AFC') totaling 0.10% p.a. This comprises solely of the management fee and costs.

## Using this Fund

**This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.**

- Lonsec notes that the Manager has produced a Target Market Determination ('TMD') which forms part of the Responsible Entity's Design and Distribution Obligations for the Fund. Lonsec has collected the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of the Target Market, and Review Triggers.
- The Fund will generally sit within the defensive component of a balanced portfolio.
- Strategic Cash and Deposit products are typically managed to generate returns that match or exceed cash (or a cash proxy such as the RBA Cash Rate or a Bank Bill index). Product risk expectations (standard deviation, credit risk, and Interest rate risk) are generally positioned as low, barring periods of exceptional market circumstances. Strategic Cash funds are generally invested in highly liquid securities or instruments.
- The Fund is suitable for investors seeking a regular income stream and capital stability, particularly in rising rate environments.

## Suggested Lonsec risk profile suitability

SECURE	DEFENSIVE	CONSERVATIVE	BALANCED	GROWTH	HIGH GROWTH
●	●	●	●	●	

For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

## Changes Since Previous Lonsec Review

This is Lonsec's initial review of the Fund.

## Lonsec Opinion of this Fund

### People & Resources

- BlackRock Inc. is a global asset management business and manages over US\$10 trillion with products that span active, enhanced, and index strategies across markets and asset classes. BlackRock has significant scale and resources for effectively managing and structuring investment products both in Australia and abroad and has a proven track record of successfully running index strategies.
- As the Fund aims to closely match its Underlying Index's performance, considerable emphasis is placed on process and automation, which requires less investment staff than an actively managed process. The Fund is implemented by BlackRock's Australian Fixed Income portfolio team led by Craig Vardy, Head of Australian Fixed Income. The Fund also benefits from members of BlackRock's research team who are primarily dedicated to ongoing quantitative research, which focuses on the index methodology, the projection of index changes, and value-added trading strategies. Further, Lonsec notes that the portfolio construction is reasonably formulaic with stringent rules designed to ensure high credit quality and liquidity.
- Lonsec considers the team to be suitably experienced for this somewhat specialised style of management. Lonsec considers Vardy to be highly experienced and knowledgeable. The team currently has eight members (including Vardy) and is organised into four streams: Portfolio Management, Credit Research, Investment and Product Strategy, and Risk Management. The Portfolio Management team consists of four additional Portfolio Managers alongside Vardy.
- The Manager utilises BlackRock's Risk and Quantitative Analysis ('RQA') team for ongoing risk monitoring and reporting for the Fund. RQA is a separate unit with its own reporting lines. Lonsec considers RQA to have access to sophisticated risk monitoring tools which aid in providing the Fund with an effective risk management framework. The team also regularly meets with members of the RQA, with this interaction playing more of a risk reporting than a compliance role. RQA members do not have the power to veto investment decisions for the Fund.
- These teams are further supported by the wider operational staff across BlackRock as well as inhouse credit research analysts and traders. The team continues to collaborate globally and utilise BlackRock's global presence. Lonsec believes this adds to both efficiency and scalability.

### Investment Process

- Lonsec considers the credit rating and issuer limits to be suitable for a cash fund that aims to provide

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diversification and a very high degree of certainty on liquidity. Lonsec believes the limits are suitably conservative and result in Fund holdings that could be considered a 'true cash' position.

- Lonsec considers BlackRock's Aladdin risk management system to be impressive and notes that it allows stress testing for funds to be conducted in addition to the daily monitoring of the standard risk metrics for the Fund.

### ESG Integration

- Lonsec's ESG integration assessment considers the rigour and structure of the ESG process for the Fund and how well it integrates into the investment process and the Manager's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings of the Fund's portfolio or the Manager's adherence to any form of impact, green/sustainable, or ethical standards.
- ESG integration for index tracking portfolios is largely limited to stewardship and engagement activities unless ESG considerations are clearly incorporated within the index. As such, for non-ESG driven indices, the ESG score provided by Lonsec is primarily an assessment of the overall ESG adoption, commitment, and policy framework implemented at the Manager level. Further, Lonsec notes that simple sector exclusions do not constitute the incorporation of ESG.
- At the corporate level Lonsec views the Manager's overall ESG policy framework and disclosure as ahead of peers. The Manager has an articulated commitment to the integration of ESG within their investment process with clear public positioning and evidence of a strong policy framework. The updated ESG policy and stewardship principles are freely available on the firm's website. The proxy voting policy and reporting on voting outcomes is stronger than peers with particular credit paid to the disclosure of voting rationale for controversial votes. The level of disclosure with respect to the Manager's engagement policies and outcomes is considered ahead of peers, particularly the firm's stewardship policies. Reporting on engagement outcomes is publicly available and the Manager is transparent about the engagement priorities, which focus on disclosure and climate change related issues.
- The Underlying Index used for this Fund has no basic filters applied and there is no integration of ESG factors in its construction.

### Overall

- Lonsec has initiated coverage of the Fund with a '**Highly Recommended**<sup>Index</sup>' rating. Lonsec believes the Fund represents a highly cost-effective cash exposure. Lonsec has high regard for the quality and experience of BlackRock as a fund manager. The Fund's rating is reflective of Lonsec's conviction in the Manager's ability to meet the Fund's objective in a highly liquid manner.

## People and Resources

### Corporate overview

BlackRock Inc. is a global asset management business with products that span active, enhanced, and index strategies across markets and asset classes. As at December 2023, BlackRock Inc. managed approximately US\$10 trillion. Products are offered in a variety of structures including separate accounts, mutual funds, other pooled investment vehicles, and iShares ETFs. BlackRock Inc is publicly listed on the New York Stock Exchange (NYSE) and the Company has a majority of independent directors. BlackRock Investment Management (Australia) Limited ('BlackRock') is a wholly-owned subsidiary of BlackRock Inc. BlackRock is the Investment Manager and Responsible Entity of the Funds. As at September 2023, BlackRock Australia had FUM of \$207.48 billion.

### Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
CRAIG VARDY	HEAD OF AUSTRALIAN FIXED INCOME	37 / 32
CAMERON GARLICK	PORTFOLIO MANAGER	33 / 23
PAVEL POSPISIL	PORTFOLIO MANAGER	23 / 21
MICHAEL PRLJACA	PORTFOLIO MANAGER	21 / 18
DMITRI LEVACHOV	PORTFOLIO MANAGER	16 / 11

As the Fund aims to closely match the performance of its Underlying Index, a considerable emphasis is placed on process and automation which requires fewer staff to maintain the portfolio than a comparable actively managed process. Notwithstanding, the portfolio management team is at a reasonable size and can leverage resources from the wider organisation in the form of credit research, risk management and investment, and product strategy. The BlackRock Australian Fixed Income team is based in Sydney and has remained relatively stable in recent years. Craig Vardy continues to oversee the investment team for all domestic strategies. The BlackRock Australian Fixed Income team also has support in the form of a dedicated credit research analyst.

## Investment Process

### Overview

- Top-down/sector approach with insights from Global Sector Specialist teams (covering Global Rates, Securitised Assets, Corporate Credit, and Municipals) are presented to all fixed income investment professionals during the Market Outlook Meeting. The objective of this meeting is to share market developments, highlight the best investment opportunities within each sector, and formulate investment themes. Portfolio managers then adopt and implement the strategies and investment themes considered appropriate for their individual portfolios.
- Bottom-up credit 'stock' research approach involves the analysis of key factors that are likely to affect the ability of companies to repay their debt and has been intentionally skewed towards qualitative factors such as industry attractiveness, competitive position, and management quality. Notwithstanding, quantitative

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factors such as leverage, interest cover, free cash flow, liquidity, and event risk also form part of the credit assessment process.

- Credit analysts assign an internal credit rating (separate from those from external rating agencies such as Moody's and S&P). They also formally score credit trends, event risks, supply risks, liquidity, and the equity relative value trend associated with a security/issuer.
- Research findings and comprehensive data on companies are stored on the Aladdin system. The credit analysis process is designed to be dynamic and the central repository is updated as and when new information comes to light. A credit analyst's views are categorised into one of the five rating types: very strong, strong, weak, very weak, or avoid. A 'watch list' is maintained for securities that are of concern to the analysts and will mainly compromise of 'very weak' or 'avoid' rated securities.

### Replication of the index

The Underlying Index is theoretical in nature and the Fund seeks to provide investors with its performance, before fees and expenses, by investing in a diversified range of Australian dollar denominated cash and short-term money market securities.

### Underlying index

The Bloomberg AusBond Bank Bill Index is engineered to measure the Australian money market by representing a passively managed short term money market portfolio. The index is comprised of 13 synthetic instruments defined by rates interpolated from the RBA 24-hour cash rate, 1M BBSW, and 3M BBSW.

### Transparency

The BlackRock website is both detailed and user-friendly. It is designed as a self-service website with information relating to performance, current holdings, and key risk characteristics for all funds.

### Liquidity

The Fund has over \$600m in FUM and Lonsec considers the liquidity to be strong. The Fund's holdings are predominantly Australian dollar cash deposits and negotiable certificates of deposit. Investors should be aware that during normal market conditions, there should be reasonable liquidity for these securities. However, during periods of heightened volatility and market dislocation, liquidity has the potential to deteriorate.

### Fees and Indirect Costs

#### Fee comparison

FUND NAME	AFC (% P.A.)	AVERAGE BID/ASK SPREAD (% P.A.)
BLACKROCK CASH FUND (CLASS S UNITS)	0.1	0
ISHARES CORE CASH ETF (BILL)	0.07	0.01
BETASHARES AUSTRALIAN HIGH INTEREST CASH ETF	0.18	0.02

Lonsec considers the Fund's AFC to be very low within the Australian cash fund peer group. The bid / ask spread for the Fund is 0.00% / 0.00%.

### Performance

The Fund has a long-term track record of performance dating back to its inception in 1997. However, this unit class has an inception date of May 2023.

### Risks

An investment in the Fund carries a number of standard investment risks associated with investment markets. These include economic, political, legal, tax, and regulatory risks. These and other risks are outlined in the relevant Product Disclosure Statement and should be read in full and understood by investors. Lonsec considers the major risks to be:

#### Tracking error risk

BlackRock seeks to minimise the tracking error against the index the Fund aims to track. There is no guarantee that this objective will be met.

#### Performance risk

The value of, and returns from, an investment in the Fund will depend upon the performance of the Underlying Index. There is no guarantee the value of an investment in the Fund will increase.

#### Interest rate risk

Changes in interest rates may have a direct impact (positive or negative) on the Fund's returns.

#### Credit risk

Investors are exposed to the creditworthiness of the institutions the Fund invests in.

### Taxation

Any gain or loss on the sale of units in the Fund should generally be treated as capital for taxation purposes.

### Further information

Further information can be obtained by calling iShares on 1300 474 273 or visiting: [www.blackrock.com/au](http://www.blackrock.com/au)

### Quantitative Performance Analysis

The Product commenced on -. As Lonsec prefers to consider performance over longer time periods, it will continue to monitor the performance of the Product as a more significant track record develops.

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### Glossary

**Bid / Ask Spread** The amount by which the ask price exceeds the bid price. Average % Spread = (ask-bid / midpoint as measured daily from 10.30am - 3.45pm).

**Absolute Deviation from NAV (daily)** The average absolute difference between the Fund's market price and its NAV. It is a measure of liquidity and market efficiency. The market price is determined by using the last price of the day on the listed exchange. The valuation time for NAV ETFs is generally the close of trading on each trading day, but may vary depending on ETF product provider.

**Premium / Discount to NAV (daily)** The amount that the Fund's market price is above the reported NAV is called the premium. The amount that the Fund's market price is below the reported NAV is called the discount. The market price is determined by using the last price of the day on the listed exchange. The valuation time for NAV ETFs is generally the close of trading on each trading day, but may vary depending on ETF product provider.

**Lonsec Implied Cost Indicator™** An indicative measure of the cost of transacting in the fund, taking into account the Management Fee, additional fees such as expense recoveries and the Bid / Ask Spread.

**Net Asset Value (NAV)** The per share dollar amount of the fund calculated daily by dividing the closing market value of all securities in the fund, less any liabilities, by the number of fund shares outstanding.

**Performance** 'Top line' actual return, after fees.

**Standard Deviation** Volatility of monthly Performance.

**Time to Recovery** The number of months taken to recover the Worst Drawdown.

**Tracking Error** Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns).

**Tracking Difference** (Excess Return) Difference in return between the Fund and the benchmark.

**Worst Drawdown** The worst cumulative loss ('peak to trough') experienced over the period assessed.

### About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

### Analyst Disclosure and Certification

Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the Analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the matters and financial product(s) to which this document refers.

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