

## iShares Enhanced Cash ETF

Rating issued on 13 Jun 2024 | Exchange Code: ISEC

### Investment objective

To exceed the performance of the S&P/ASX Bank Bill Index, before fees, while minimising Tracking Error.

Manager	BlackRock Investment Management (Australia) Limited
Distributor	BlackRock Investment Management (Australia) Limited
Sector	Australian Fixed Interest \ Short-Term Credit
Investment Style	Active
RI Classification	Traditional
Absolute Risk	Very Low
Relative Risk	Active - Benchmark Aware
Investment Timeframe	1-2 Years
Benchmark	Bloomberg AusBond Bank Bill Index
Min Investment Amount	-
Redemption Frequency	Daily
Income Distribution	Monthly
Fund Size (31 Mar 2024)	\$254.70M
Management Cost	0.12% p.a. Incl. GST
Performance Fee	N/A
Buy / Sell Spread	N/A
Inception Date	31 Jul 2017

### Fund facts

- Index strategy seeking to exceed the S&P/ASX Bank Bill Index
- Strategy benefits from extensive global resources and technology
- Highly cost effective at 0.12% p.a.

### Viewpoint

The Fund, managed by BlackRock Investment Management Australia Limited (BlackRock), is an Exchange Traded Fund (ETF) that provides low-cost exposure to a diversified portfolio of higher-yielding, short-term Money Market instruments. Through a stratified sampling approach to portfolio construction, the Fund is designed to produce a gross return that marginally exceeds the S&P/ASX Bank Bill Index. Zenith believes that BlackRock is a specialist manager of index-orientated strategies, and through its systematic process and use of technology, is well positioned to meet its targeted return objectives.

A publicly-listed company, BlackRock employs approximately 19,300 staff located in 38 countries around the world, with approximately \$US 10.47 trillion in funds under management (FUM) as at 31 March 2024.

Responsibility for the Fund rests with BlackRock's Sydney-based Fixed Income team, which comprises seven members, each of whom are split according to investment function (i.e. Portfolio Management, Credit Research and Risk Management). Leading the team is Craig Vardy, Head of Australian Fixed Income, and a member of BlackRock's APAC Fixed Income Group. In this role, Vardy oversees BlackRock's Indexed, Enhanced and ETF Australian Bond portfolios.

Zenith has high conviction in Vardy's investment and leadership qualities, believing his skill set is well aligned to the management of the Fund. Furthermore, we believe he is strongly supported by the local Fixed Income team, and in particular Portfolio Manager, Michael Prljaca who maintains responsibility for day-to-day management of the Fund.

In targeting an index return, BlackRock does not hold all securities within the benchmark. Rather, BlackRock seeks to achieve a commensurate total return by implementing a systematic process that focuses on key factor exposures (i.e. duration, spread) as a means of index replication. Referred to as 'stratified sampling', this approach is focused on identifying common risk factors and grouping these into like buckets such as maturity, sector, credit quality and industry.

Portfolio construction is largely systematic and relies heavily on BlackRock's proprietary systems to develop an understanding of the underlying risk and return drivers of each bucket. The team will then select a sample of eligible securities that when combined, reflect the overall characteristics of the index. BlackRock also uses a number of tools to minimise transaction costs. Included amongst these are electronic trading platforms, internal crossing networks and exchange-traded interest rate derivatives.

The Fund's cost structure is the lowest within the 'Short-Term Credit' market segment and when assessed in terms of Tracking Error and historical bid/ask spreads, Zenith considers the Fund to be a strong 'Australian Fixed Interest - Short-Term Credit' proposition.

*NOTE: Zenith ratings applied to ETFs do not take into account price volatility or direction and do not represent a buy/sell recommendation based on an ETF's valuation. Potential investors should make their own determination of the appropriateness of prevailing trading prices when utilising ETFs.*



## Fund analysis

### Fund characteristics

Constraint	Value
Tracking Error (% p.a.)	N/A

### Investment objective and philosophy

The Fund aims to exceed the performance of the S&P/ASX Bank Bill Index, before fees, while minimising Tracking Error.

BlackRock's passive investment process is guided by its philosophy which is focused on Total Performance Management. This states that in order to achieve the Fund's return objective, risk must be understood and adequately compensated while concurrently taking transaction costs into consideration. Furthermore, it is essential that portfolio managers have a detailed understanding of the benchmark, its core characteristics, potential index changes and the issuance of new securities. This in turn necessitates detailed portfolio analysis, benchmark research in support of portfolio construction, and established trade execution processes.

In targeting an index return, BlackRock does not seek to hold all securities within the benchmark. Whilst a full replication approach can produce optimal Tracking Error results, it will also lead to a rise in transaction costs relative to alternative methods. Accordingly, BlackRock adopts a 'stratified sampling' approach to portfolio construction, with the aim of producing a commensurate total return through the replication of factors and characteristics of the benchmark. In addition, as the Cash index is synthetic, not all securities in the benchmark can be invested in and held.

Zenith believes that BlackRock applies a comprehensive approach to passive investment, effectively leveraging key business units and sophisticated risk management infrastructure. Furthermore, Zenith views this approach as systematic and well considered, with a strong focus on the balance between risk and transaction costs.

### Portfolio applications

The term 'Cash' generally refers to Short-Term Call Deposits and Cash equivalent securities (such as Treasury Notes, Bank Bills, Semi-Government, Corporate and Asset-Backed Promissory Notes). Cash investments generally provide a stable return, with low potential for capital loss. 'Short-Term Credit' funds generally aim to deliver a higher return than 'Cash' funds through their ability to assume greater term and credit risk.

The Fund is a conservatively managed, Short-Term Credit fund that provides investors with an exposure to Cash enhanced returns, in a liquid and transparent structure. From a portfolio perspective, the Fund may be suitable as an income or defensive exposure within a well-diversified portfolio. Due to the anticipated low levels of volatility and loss of capital, Zenith believes the Fund may be appropriate for investors with shorter-term (e.g. daily) liquidity needs.

### Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Traditional

Key Information	Description
Has Responsible Investment Policy	Yes
PRI Status	
PRI Signatory	Yes

\*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact



# Absolute performance

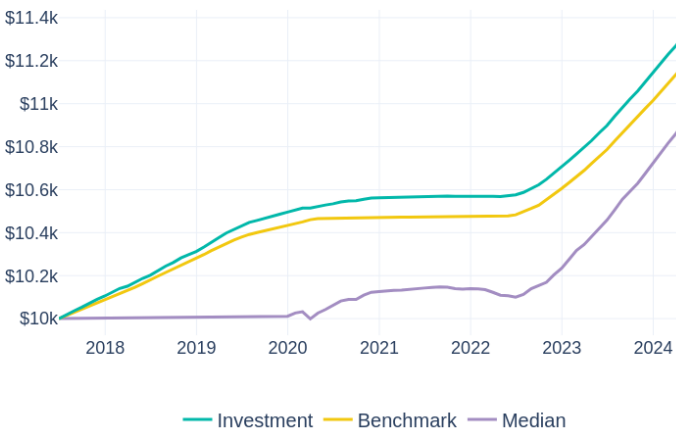
## Performance as at 31 May 2024

### Monthly performance history (% , net of fees)

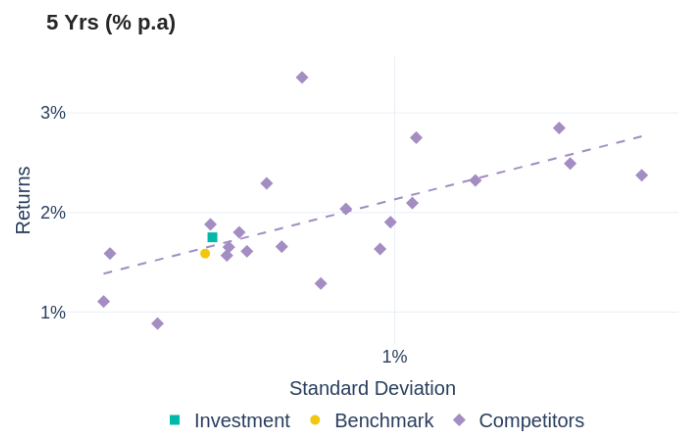
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	0.41%	0.36%	0.35%	0.42%	0.40%								1.95%	1.82%
2023	0.29%	0.26%	0.29%	0.30%	0.34%	0.31%	0.40%	0.39%	0.34%	0.35%	0.38%	0.37%	4.09%	3.85%
2022	0.00%	0.00%	-0.01%	-0.02%	0.03%	0.05%	0.11%	0.18%	0.16%	0.24%	0.26%	0.27%	1.28%	1.25%
2021	0.01%	-0.01%	0.01%	0.01%	0.01%	0.01%	0.02%	0.00%	0.00%	-0.01%	0.01%	0.00%	0.07%	0.03%
2020	0.10%	0.08%	0.00%	0.08%	0.05%	0.05%	0.08%	0.04%	0.01%	0.06%	0.05%	0.01%	0.64%	0.37%

\*Bloomberg AusBond Bank Bill Index

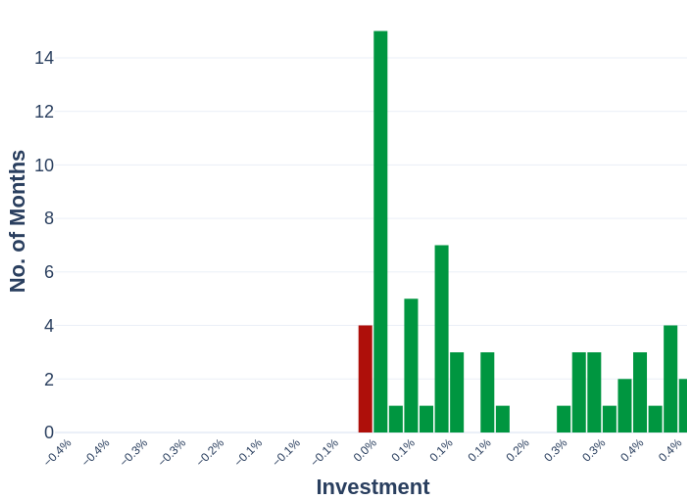
### Growth of \$10,000



### Risk / return



### Monthly histogram



### Minimum and maximum returns (% p.a.)





## Absolute performance analysis

Instrument	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
Investment	4.56%	3.67%	2.44%	1.75%	1.86%
Benchmark	4.28%	3.46%	2.31%	1.59%	1.67%
Median	5.13%	4.11%	2.61%		
Cash	4.28%	3.46%	2.31%	1.59%	1.67%

## Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	18 / 21	14 / 20	13 / 19	15 / 21
Quartile	4th	3rd	3rd	3rd

## Absolute risk

Instrument	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
<b>Standard Deviation (% p.a.)</b>					
Investment	0.11%	0.33%	0.56%	0.50%	0.43%
Benchmark	0.07%	0.30%	0.52%	0.48%	0.41%
Median	0.14%	0.45%	0.71%		0.67%
<b>Downside Deviation (% p.a.)</b>					
Investment	0.00%	0.00%	0.01%	0.01%	0.01%
Benchmark	0.00%	0.00%	0.01%	0.01%	0.01%
Median	0.00%	0.05%	0.12%		0.19%

## Absolute risk/return ratios

Instrument	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
<b>Sharpe Ratio (p.a.)</b>					
Investment	2.52	0.65	0.25	0.32	0.44
Benchmark	0.00	0.00	0.00	0.00	0.00
Median	6.06	1.45	0.42		0.62
<b>Sortino Ratio (p.a.)</b>					
Investment	infinity	infinity	10.57	15.66	21.47
Benchmark	NaN	NaN	0.00	0.00	0.00
Median	infinity	14.23	2.46		2.22

NOTE ON PERFORMANCE - Performance data contained in this report is based on an ETF's end of day Net Asset Value (NAV) as opposed to the last market price. Zenith has elected to use NAV over last price as this eliminates extraneous trading noise which typically occurs at the end of the trading day. While we see this as a cleaner approach to assessing ETF performance, readers should be aware that actual performance of an ETF may differ depending on the timing of investment and divestment of holdings.

The following commentary is current as at 30 April 2024.

The investment objective for the Fund is to provide returns in excess of the S&P/ASX Bank Bill Index (before fees and expenses).

The Fund has delivered upon this stated investment objective when assessed over a broad range of investment time frames.



## Relative performance

### Excess returns

Statistic	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
Excess Return	0.27%	0.21%	0.14%	0.16%	0.19%
Monthly Excess (All Mkts)	83.33%	83.33%	72.22%	80.00%	80.72%
Monthly Excess (Up Mkts)	83.33%	83.33%	76.47%	84.21%	83.75%
Monthly Excess (Down Mkts)	0.00%	0.00%	0.00%	0.00%	0.00%

### Capture ratios (% p.a.)

Statistic	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
Downside Capture	0.00%	0.00%	156.92%	187.78%	187.78%
Upside Capture	106.25%	106.05%	105.99%	110.34%	111.37%

### Tracking error (% p.a.)

Instrument	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
Investment	0.07%	0.06%	0.06%	0.08%	0.08%
Median	0.11%	0.22%	0.25%		0.35%

### Information ratio

Instrument	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
Investment	3.95	3.28	2.19	1.98	2.33
Median	7.49	2.89	1.20		1.18

### Beta statistics

Statistic	1 Yr	2 Yrs	3 Yrs	5 Yrs	Inception
Beta	1.17	1.08	1.07	1.03	1.03
R-Squared	0.61	0.97	0.99	0.97	0.97
Correlation	0.78	0.98	1.00	0.99	0.98

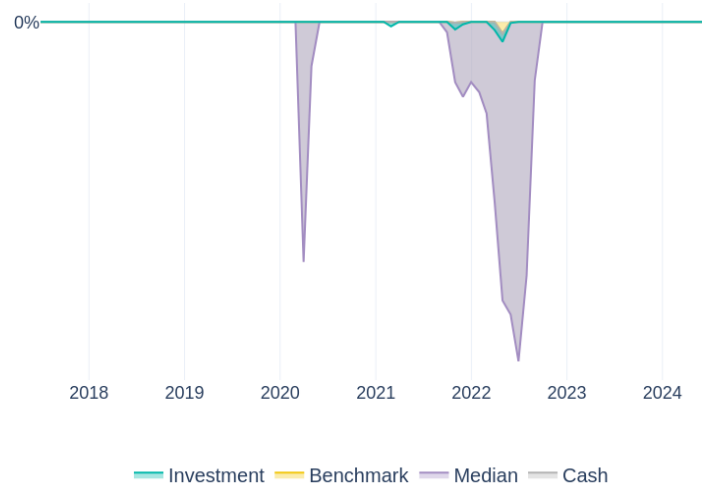
The following commentary is current as at 30 April 2024.

Zenith seeks to identify funds that can outperform the index in over 50% of months in all market conditions, as we believe this represents consistency of manager skill.

When assessed over a broad range of investment periods, the Fund has shown success in producing positive net excess returns in 'all market' conditions.

### Drawdown analysis (since inception)

*Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.*



The following commentary is current as at 30 April 2024.

Zenith highlights that the drawdown profile of the Fund has generally been constrained.

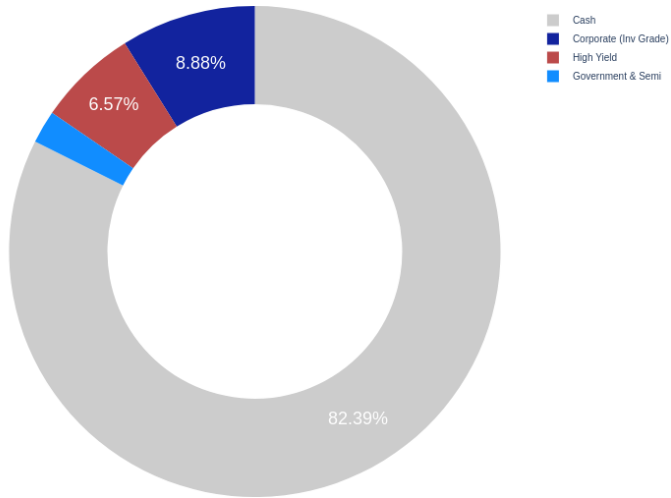


## Product Exposures

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### Holdings as at 31 Mar 2024

#### Fixed interest sector holdings





## Fund commentary

### Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

**Tracking Error risk:** As an index strategy, a key risk facing the Fund is incurring excessive Tracking Error, the existence of which may see Fund performance deviate from that of its targeted benchmark.

An ETF may lag its underlying tracked index as a result of the ETF price not matching the movements in the index. This may be caused by large institutional trades which can move the ETF price away from its Net Asset Value (NAV). This risk should be broadly mitigated by the Authorised Participants, who in their capacity as market makers, will aim to remove these mismatches in prices. In addition, ETFs have a unique feature that allows large institutional orders to access the NAV of the underlying fund by an in-specie transfer, which removes the market impact for large flows.

**Benchmark replication risk:** Notwithstanding the Fund's investment approach, investors should be aware that the Fund does not guarantee gross returns that fully replicate those of its stated performance benchmark. By consequence, there is a risk that the Fund may underperform.

### Security/asset selection

The Fund's investment universe consists of all securities eligible for inclusion in the S&P/ASX Bank Bill Index and Investment Grade Floating Rate securities eligible for inclusion in the AusBond Credit FRN 0+ Yr Index.

Security selection is primarily driven by BlackRock's quantitatively based stratified sampling process, which seeks to replicate the factor exposures of the underlying indices. This is achieved by dividing the benchmark according to specific characteristics including maturity, sector, credit quality and industry.

By bucketing the benchmark in this manner, the team is then able to use proprietary software to gain a greater appreciation of each bucket's key statistics (or drivers of risk and return). BlackRock will then select a sample of individual securities that when combined, reflect the overall characteristics of each bucket. This approach seeks to consistently create the optimal balance between the portfolio's variance from the benchmark (Tracking Error) with transactional costs.

While it is feasible that BlackRock's stratified approach leads to a slight increase in Tracking Error, its use also permits the team to add value through relative value trades. This option is however administered selectively and is managed within a risk-controlled framework to ensure outcomes do not materially stray from that of the Fund's targeted benchmark.

With respect to the management of the Fund, security selection is deemed key to achieving its outperformance objective. The domestic team seeks to add incremental value through Commercial Paper (up to 187 days maturity) and FRNs (up to 5 years maturity) of different credit ratings (albeit these must be investment grade). By consequence, the Fund's yield and credit quality characteristics will vary from that of its stated benchmark.

Zenith notes that historically, BlackRock has shown an ability to add incremental return through security selection. Pleasingly, this has been without disproportionately altering the Fund's risk profile, a factor we attribute to the risk-controlled framework that BlackRock has in place.

Other sources of return enhancements and cost minimisation strategies available to BlackRock include:

- Buying new issues in the primary market that are expected to be included in the index
- Maintaining different weighted security exposures to a particular issuer in order to achieve an efficient cumulative exposure
- Crossing trading between BlackRock funds where possible

Zenith believes the combination of technology and investment team experience places BlackRock in a strong position to track the benchmark and add incrementally to portfolio outcomes.

### Responsible investment approach

BlackRock has an established Responsible Investment Policy (RIP) that was last updated in March 2023. Compliance with the RIP is monitored by BlackRock's Sustainable Investment Team alongside the Risk and Quantitative Analysis (RQA) team. In addition, BlackRock has been a signatory to the United Nations Principles of Responsible Investment (PRI) since 2008.

At a firmwide level, BlackRock has in place a mandate requiring all divisions and teams to incorporate Environmental, Social and Governance (ESG) matters within investment and portfolio construction processes. To facilitate this, BlackRock has established a number of formal committees tasked with the development and monitoring of group wide ESG policies. Furthermore, BlackRock has added resourcing in the area of technology, with the goal of improving ESG related reporting. An example of this is the addition of issuer-level ESG data into their internal risk management system, Aladdin.

For client reporting purposes, BlackRock also produces ESG metrics with respect to active risk contribution by ESG rating and emission intensity. Zenith views favourably the disclosure of measures that seek to quantify the value add from ESG active management. Notwithstanding this, BlackRock's ESG-related processes bear less relevance when considered in relation to its suite of passive, index-tracking products.

### Portfolio construction

#### Index construction

The S&P/ASX Australian Fixed Interest Series is a broad benchmark index designed to measure the performance of the Australian Bond market subject to investability criteria.



These indices use a systematic process to represent the Fixed Income markets by geography, sector and maturity. Index construction seeks to strike a balance between investability and completeness when determining index membership, particularly when considering liquidity issues. Sub-indices are broken out based on maturity bands, credit ratings and sectors.

The S&P/ASX Bank Bill Index seeks to measure the performance of the Bank Bill market with maturities of up to 91 days, based on benchmark rates published by the ASX. The index is constructed by referencing 13 theoretical weekly Bills, ranging in maturity from one week to 91 days, and referenced using the following rates:

- BBSW for 30, 60 and 90 days
- Overnight Cash Rate

The 13 rates are derived from the four rate types listed above and applied to each of the 13 theoretical Bills. As the index progresses to the next weekly rebalancing date, the term to maturity of each Bill reduces daily until the shortest Bill matures. The face value of this Bill is then reinvested in a new Bill with a term to maturity of 13 weeks and the term to maturity of the index increases by approximately seven days.

### Risk management

BlackRock utilises risk management tools and software that allow extensive monitoring and control of risk in the underlying portfolios. Of the tools available, BlackRock's internally-developed 'Aladdin' system is most notable. Aladdin is designed to provide a flexible reporting capability to portfolio managers, allowing them to closely monitor positions while also aligning funds with the majority of BlackRock's operations across all regions.

As the Fund is managed with a passive investment style, Tracking Error is a major consideration in portfolio construction. As such, BlackRock utilises Aladdin to assess key risks of the benchmark, and subsequently the portfolio, with the ultimate goal of minimising the volatility of portfolio returns relative to the benchmark.

BlackRock places significant importance on identifying key risk factors within the target benchmark so that these may be replicated in the portfolio. Given the complexity of this approach, BlackRock employ multi-factor risk models that are capable of conducting risk analysis at the level of granularity demanded by the strategy. Spanning a range of factors such as duration and convexity, these models allow BlackRock to control specific factors while also helping to assess and remove inadvertent biases from the portfolio.

Zenith believes that BlackRock's risk management capability is underpinned by one of the more advanced technology platforms in the market, and further, is complemented by the team's sound understanding of risks associated with managing a passive investment strategy.

### Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	0.12% p.a.	0.32% p.a.
Management Fees and Costs	0.12% p.a.	0.31% p.a.
Transaction Costs	0.00% p.a.	0.00% p.a.
Performance fees as at 30 Jun 2023	0.00%	0.01%
Performance fees description	N/A	
Management Cost	0.12% p.a.	0.34% p.a.
Buy / Sell spread	N/A	0.01% / 0.02%

*All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).*

ETFs contain a variety of explicit and implicit costs to the investor. Investors should be aware that poor ETF selection and/or trade execution can diminish any advantage gained by the lower management cost exhibited by ETFs in comparison to managed funds.

#### Management cost

Zenith considers the cost structure of the Fund to be highly attractive, noting this is the most competitive offering when compared to other Short-Term Credit funds.

#### Bid/ask spread

As listed products, investors are exposed to bid/ask spreads as an intangible cost of investment and divestment. The bid/ask spread is primarily a function of market liquidity in fund units as well as the presence of the maximum bid/ask spreads which are maintained by authorised participants and market makers.

It should be noted that, as a safeguard in the absence of a natural market in which two investors are transacting in the Fund, market makers ensure the maximum spread is limited to a pre-agreed spread limit. However, it is important to note that bid/ask spreads tend to be at their highest and most volatile at the start and end of the trading day.

*(The fees mentioned above are reflective of the flagship version only, fees may differ when the product is accessed through an alternate investment vehicle such as a platform).*

## About the fund manager

### Organisation

BlackRock was established in 1988 as the investment management group within the private equity firm Blackstone Group. Following a number of ownership changes, BlackRock merged with Merrill Lynch Investment Management (MLIM) while retaining the BlackRock name. In 2009, BlackRock acquired Barclays Global Investments (BGI) and merged the two businesses. In January 2024, BlackRock also announced that it had entered into an agreement to acquire Global Infrastructure





Partners (GIP), the world's largest independent Infrastructure manager. It is anticipated that the transaction will be completed in the second half of 2024.

BlackRock employs approximately 19,800 staff located in 38 countries, with approximately \$US 10 trillion in funds under management, as at 31 December 2023.

In a global context, BlackRock dedicates significant resources to the management of its range of index-orientated Fixed Income strategies, with passive operations remaining a core business and contributor to overall group earnings. An industry leader within the indexing space, BlackRock enjoys considerable economies of scale, most notably in terms of improved trade execution and cost minimisation. Zenith continues to retain a high regard for BlackRock's capability in this market segment, noting the organisation's well-established record in managing passive style investment strategies.

Within Australia, BlackRock manages a range of active and passive products across Equities, Fixed Income, Cash, Multi-Asset strategies and Property. As at 31 March 2024, there was \$A 27.21 billion in FUM in the BlackRock Australian Fixed Income and Cash strategy, and \$A 254.7 million in the Fund.

### Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Craig Vardy	Head of Australian Fixed Income	31	31	Sydney, Australia
Michael Prljaca	Portfolio Manager	19	17	Sydney, Australia
Pavel Pospisil	Portfolio Manager	20	20	Sydney, Australia
Cameron Garlick	Portfolio Manager	33	23	Sydney, Australia
Dmitri Levachov	Portfolio Manager	15	10	Sydney, Australia

BlackRock's suite of passive Fixed Income products are managed by its Sydney-based Australian Fixed Income team. Led by Head of Australian Fixed Income, Craig Vardy, the team is responsible for a range of strategies including Cash, Index & Inflation, Enhanced Index, Core, Absolute Return and Alternative strategies. The domestic team comprises seven members, with responsibilities divided between portfolio management, credit research and risk management.

Vardy joined BlackRock in 1992 (via its predecessor firm Barclays Global Investors) and has been responsible for a range of Cash and Fixed Income portfolios. In his current position, Vardy is a member of the Asia Pacific Fixed Income Group and retains responsibility for the management of BlackRock's Indexed, Enhanced and ETF Australian Bond portfolios. Zenith has high regard for Vardy's experience and leadership qualities, believing he is strongly positioned to manage a set of passive Fixed Income strategies.

Supporting Vardy in the management of all Cash and Fixed Income portfolios are Portfolio Managers Pavel Pospisil, Michael Prljaca, Cameron Garlick and Dmitri Levachov. Under Vardy's oversight, each manager is responsible for the modelling and

execution of portfolio trades as well as monitoring portfolios for rebalancing purposes. Zenith considers the portfolio managers to be highly experienced, with Prljaca having portfolio management responsibility for the Fund. Vardy retains oversight on a day-to-day basis.

BlackRock's remuneration structure comprises a mix of base salary and discretionary bonus. The incentive component is determined by taking into consideration a mix of individual and group performance measures. Individual success is gauged through a series of qualitative measures together with an overall assessment of team contribution. Group wide components are largely determined by business measures including profitability and segment performance.

An individual's discretionary component will include both short and longer-term components. Short-term components are paid in cash and on a yearly basis. Longer-term components are paid in the form of restricted stock which vests over a three-year period. An individual's longer-term component is likely to be a greater contributor to overall remuneration as they become more senior.

Zenith believes that members of BlackRock's Australian Fixed Income team possess the requisite experience and skills necessary to effectively manage the Fund. Furthermore, given BlackRock's considerable global resourcing and systematic process, we consider key person risk to be negligible.

## About the sector

### Sector characteristics

Funds classified within Zenith's 'Australian Fixed Interest – Short-Term Credit' sub-asset class are managed with a focus on liquidity and capital preservation, supplemented by additional return enhancement strategies.

In addition to traditional Money Market securities (including Overnight Cash Deposits, Bank Bills, Floating Rate Notes, Short-Term Call Deposits), Short-Term Credit funds can also invest in longer-dated Term Deposits (greater than three months maturity), Investment Grade Corporate Debt and Asset-Backed Securities (ABS) (both Mortgage-Backed Securities (MBS) and ABS). Funds in this sub-asset class are actively managed, which can include a range of interest rate and yield curve strategies, as well as tactical credit strategies. They will typically exhibit an average credit quality above A-, with an average weighted portfolio maturity of 12 months or less.

Zenith benchmarks Short-Term Credit funds against the Bloomberg AusBond Bank Bill Index. This index represents the performance of a passive investment in a short-term Money Market portfolio. The index comprises 13 Bank Bills of equal face value, each with a maturity seven days apart. Bank Bills are short-term Money Market instruments that typically have maturities between 30 and 180 days.

### Sector risks

Funds within the 'Australian Fixed Interest – Short-Term Credit' sector are exposed to the following broad risks:

**Market risk:** Changes in economic, technological, environmental or political conditions and market sentiment may lead to a decline in general security prices and overall market



volatility. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously.

**Interest rate risk:** Fixed Interest securities are generally sensitive to changes in interest rates. An increase in interest rates may result in a fall in the value of these securities, while a decrease in interest rates can result in an increase in value.

**Credit spread risk:** In addition to being sensitive to general interest rate changes, non-government securities are also sensitive to changes in credit spreads (commonly the difference in yield between a Government Bond and a Corporate security). A widening of spreads results in a fall in the value of these securities.

**Credit risk:** Given Fixed Interest securities represent loans to borrowers (including governments, banks and companies), there is a risk that these borrowers may default on interest or principal repayments. Credit risk is often reflected in credit ratings assigned by various credit agencies, which are subject to change.

**Liquidity risk:** Fixed Interest markets can experience periods of illiquidity, which can result in difficulties in buying or selling securities without adversely impacting the price.

**Derivative risk:** Derivatives are commonly employed by Fixed Interest managers to hedge currency and other risks, and/or as an alternative to direct purchases or sales of underlying assets. There are multiple risks associated with the use of derivatives. For example, the value of the derivative may not move in line with the underlying asset, counterparties to the derivative may not be able to meet payment obligations or a particular derivative may be difficult or costly to trade.

**Inflation risk:** Given the conservative risk/return characteristics of the Short-Term Credit sub-asset class, there remains a risk that the purchasing power of assets invested may be diminished in an inflationary environment.

research/ data services or the research/ data services of our related entities. Conflict management arrangements are in place where we or our related entities provide research services to the product issuer or financial advisory businesses who provide financial planning services to investors and are also associated entities of product issuers. This is in accordance with the Zenith Group's Conflict of Interests Policy. Further details in relation to our relationships and associations are available on request.

## Rating history

As At	Rating
13 Jun 2024	Recommended
06 Jun 2023	Recommended
31 May 2022	Recommended
27 Oct 2020	Recommended
17 Oct 2019	Recommended

*Last 5 years only displayed. Longer histories available on request.*

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

## Administration and operations

Responsible Entity	BlackRock Investment Management (Australia) Limited
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## Zenith rating

### Report certification

Date of issue: 13 Jun 2024

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