



# Product Review

## iShares MSCI Emerging Markets ex China ETF

ISSUE DATE 20-06-2024

### Key information

FUND MANAGER	BLACKROCK INVESTMENT MANAGEMENT (AUSTRALIA) LIMITED
ASSET CLASS	GLOBAL EQUITIES
SECTOR	GLOBAL EMERGING MARKETS
SUB SECTOR	BETA - PASSIVE
INVESTMENT TYPE	EXCHANGE TRADED FUND ('ETF') LISTED ON THE AUSTRALIAN SECURITIES EXCHANGE ('ASX')
PDS OBJECTIVE	THE FUND AIMS TO PROVIDE INVESTORS WITH THE PERFORMANCE OF THE MSCI EMERGING MARKETS EX CHINA INDEX, BEFORE FEES AND EXPENSES
UNDERLYING FUND	ISHARES MSCI EM EX-CHINA UCITS ETF USD (DIST)
INDEX PROVIDER	MSCI INC.
UNDERLYING INDEX	MSCI EMERGING MARKETS EX CHINA INDEX
DERIVATIVE USE	YES
SECURITIES LENDING	NO - HOWEVER, THE UNDERLYING FUND MAY ENGAGE IN SECURITIES LENDING
LISTING DATE	JUNE 2024
DISTRIBUTION FREQUENCY	SEMI-ANNUALLY
FUND SIZE	\$0.5M

### Fees & costs (% per annum)

MANAGEMENT FEES AND COSTS	0.25
PERFORMANCE FEE COSTS	-
NET TRANSACTION COSTS	0.05
ANNUAL FEES AND COSTS (PDS)	0.3

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.

### Daily trading information

TICKER	EMXC
52 WEEK LOW	\$25.51
52 WEEK HIGH	\$26.06
LAST PRICE	\$26.06
LAST NET ASSET VALUE (NAV)	\$25.78
PREMIUM / DISCOUNT TO NAV (DAILY)	0.011%
AVERAGE DAILY TRADED VOLUME	-
AVERAGE DAILY TRADED VALUE	-

### What this Rating means

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

### Strengths

- The Fund is the only ETF on the ASX which provides a passive exposure to a portfolio of emerging markets ex China equity securities.
- BlackRock is a leading global manager of passive strategies, allowing investors to enjoy the benefits of their scale, experience and resources.
- The Fund's Annual Fees and Cost ('AFC') is considered very competitive when compared to similar passive emerging market equity ETFs.

### Weaknesses

- The Emerging Market fund-of-fund structure has the potential to lead to a higher tracking error and tracking difference. The Manager has developed an internal process to mitigate this however lacks a live track record.
- The Underlying Index naturally leads to higher weights to the Information Technology and Financials sector along with higher Taiwan and India country exposure. As such, this may expose investors to some unintended macroeconomic and idiosyncratic risks from time to time.
- The Fund has a recent inception date and is yet to establish a meaningful track record.

### Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK	●		
CAPITAL VOLATILITY			●
SECURITY CONCENTRATION RISK		●	
SECURITY LIQUIDITY RISK		●	
FOREIGN CURRENCY 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 7 equates to a Risk Label of 'Very High' and an estimated number of negative annual returns over any 20 year period of 6 or greater. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

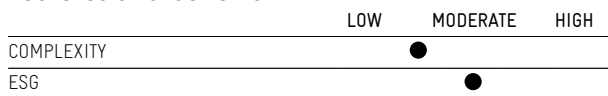
ANALYST: AMBER SUNIL | APPROVED BY: NATHAN UMAPATHY

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### Features and benefits



### Fee profile



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

### What is this Fund?

- iShares MSCI Emerging Markets ex-China ETF ('EMXC' or 'the Fund') is a rules based market capitalisation weighted equity portfolio comprising the large and mid cap sectors of emerging markets ex China. The Fund is designed to track the performance of the MSCI Emerging Markets ex-China Index ('the Underlying Index') before fees and expenses.
- The Fund is passively managed by iShares by BlackRock ('the Manager' or 'BlackRock') and the Underlying Index is defined by MSCI Inc. ('MSCI' or 'the Index Provider').
- The Fund is an Australian-domiciled fund and invests in the Irish-domiciled, Netherlands-listed iShares MSCI EM Ex-China UCITS ETF USD (Dist) ('the Underlying Fund'), rather than holding the underlying securities directly.
- The Underlying Fund employs an 'optimised' portfolio construction. Therefore, while the Underlying Fund will aim to hold all the Underlying Index constituents directly, the Manager may also use other ETFs to gain access to specific emerging markets if the Manager can improve the tracking of the product.
- The Underlying Fund invests in assets that are denominated in various local currencies and is currency unhedged. The returns of the Fund will therefore be impacted directly by fluctuations between the relevant foreign currencies and the Australian dollar.
- The Fund's PDS, dated 28 May 2024, disclosed Annual Fees and Costs ('AFC') totaling 0.30% p.a. This value comprises (1) management fee and costs of 0.25% p.a., and; (2) net transaction cost estimate of 0.05% p.a. In line with RG97, some fees and costs have been estimated by the issuer on a reasonable basis. Actual fees and costs may vary to these estimates, particularly with respect to net transaction 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.**

- 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 Target Market and Review Triggers.
- The Fund is a 'long only', emerging market equity product. As such, the Fund will generally sit within the growth component of a balanced portfolio. Lonsec considers it suitable for blending with other global equities strategies. Lonsec recommends that equity investments are suitable for moderate to high-risk profile investors with an investment time horizon of at least five years.
- Lonsec believes that investors seeking exposure to broader global equities should primarily invest in well-diversified global equities funds across stocks and regions. Investors should also be mindful of monitoring and maintaining a balance in the overall exposure to developing economies within their global equities allocation. Further, on a look-through basis, it is possible that existing broader global equity fund holdings may already provide a meaningful emerging markets exposure.
- Lonsec believes there is a compelling case for including emerging markets within a blended global equities allocation. However, Lonsec also recommends that allocations to stand alone emerging markets / regional equities funds only be made to augment a broader global equities exposure dependent on client risk tolerance.

### Suggested Lonsec risk profile suitability



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 and resources

- BlackRock is a global leader in ETFs with over 1,400 iShares ETFs listed globally. Further, BlackRock also had US\$6.94 trillion of FUM invested across its suite of ETF and Index strategies as at March 2024. These funds are managed and brought to market by BlackRock, one of the largest asset management firms globally. BlackRock has significant scale and resources for effectively managing and structuring ETFs both in Australia and abroad and has a proven track record of successfully running index strategies.
- Jane Kim leads a team of seven colleagues based in Hong Kong and Singapore who is the investment team responsible for the Fund. While the individuals responsible for the Underlying Fund are teams led by Jennifer Hsui, Paul Whitehead, Greg Savage and Amy Whitelaw.
- Given the passive nature of the Fund, BlackRock does not employ traditional analyst or a typical active portfolio manager structure. Instead, each Portfolio

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Manager supervises a portfolio management team. The other research team members are dedicated to ongoing quantitative research which focuses on the index methodology, projection of index changes, and value-added trading strategies. The investment team is considered to be highly experienced industry experts. Further, the investment team has been very stable over time. As such, the key person risk is significantly lower compared to that of active managers.

- The Underlying Index is provided by MSCI Inc. who is a leading provider of investment research, analytics, and indexing services globally, providing global indexes and services since 1969.

### Investment approach

- MSCI has adopted a conservative and simple market-capitalisation weighted index methodology for the Underlying Index. The Underlying Index has robust and transparent constituent selection criteria. This includes framing the investment universe as being emerging markets only, excluding China, which results in a specialised index that is quite differentiated to traditional emerging market indices. Additionally, the Underlying Index has over 650 constituents at the time of review.
- By nature of the market segment and the index rules, the Underlying Index naturally leads to higher weights to the Information Technology and Financials sector along with higher Taiwan and India country exposure. This feature may expose investors to unintended macroeconomic and idiosyncratic risk from time to time.
- The Fund is a feeder-fund for the Netherlands-listed Underlying Fund. Historically, the tracking error performance associated with this fund-of-fund structure has generally been exacerbated due to time time-zone differences with the underlying holdings and the listing market of the Underlying Fund. However, BlackRock will be referencing the Underlying Fund's NAV rather than the more common closing price methodology used across the industry in Australia with the aim of reducing this risk.
- The valuation of the Fund is based on the NAV of the Underlying Fund. This ensures that the underlying stock prices used to value the Fund aligns to that of the index. BlackRock confirms that it followed an internal governance process to evaluate the appropriateness of this novel approach in Australia which has provided additional comfort to Lonsec. This valuation structure and the Fund's performance track record will be an important consideration in future reviews to assess its effectiveness in meeting the Fund's investment objective.

### ESG Integration

- Lonsec's ESG integration assessment considers the rigour and structure of the ESG process for the Fund, as well as how well it integrates into the overall 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 plus active voting, 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 ESG policy together with stewardship guidelines 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 is high, particularly the firm's stewardship policies. Reporting on engagement outcomes is publicly available with engagement priorities focusing 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 the Fund's rating with '**Recommended** Index' rating. The Fund offers an efficient vehicle for investors to gain passive exposure to a broad equity portfolio of emerging market ex China securities. The Fund's AFC is considered to be extremely competitive in the emerging markets peer group and is the only passive exposure to this exposure.
- However, the Fund has a limited track record having launched in June 2024. Additionally, the Underlying Index naturally leads to higher weights to the Information Technology and Financials sector along with higher Taiwan and India country exposure which may expose investors to some unintended macroeconomic and idiosyncratic risks from time to time. Finally, given the Fund's structure, Lonsec will continue monitor the Manager's effectiveness in meeting the Fund's investment objective of tracking the Underlying Index.

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## People and Resources

BlackRock, Inc. is a global asset management business and provider of global investment management, risk management and advisory services to institutional and retail clients around the world. As at March 2024, BlackRock Inc. managed approximately US\$10 trillion with products that span active, enhanced and index strategies across various markets and asset classes. 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 Fund. BlackRock Australia managed approximately A\$234 billion as at March 2024.

## Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
JENNIFER HSUI	CO-HEAD OF INDEX EQUITY	24 / 19
PAUL WHITEHEAD	CO-HEAD OF INDEX EQUITY	28 / 28
JANE KIM	HEAD OF APAC EX-JAPAN EQUITY PORTFOLIO MANAGEMENT	16 / 8

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 equity research, risk management and investment and product strategy.

The Risk and Quantitative Analysis ('RQA') team is also utilised for ongoing risk monitoring and reporting for the Fund. RQA is a separate unit with its own reporting lines. The RQA team has access to sophisticated risk monitoring tools that provide the Fund with an effective risk management framework.

## Investment Approach

### Overview

The Fund gains exposure to the underlying securities via holding the Underlying Fund. The Underlying Fund employs an 'optimised' portfolio construction. Optimisation is an indexing strategy that involves investing in a select subset of index components to minimise tracking error while also considering constraints within the Index. As such, the Underlying Fund may or may not hold all of the securities in the Underlying Index.

### Securities Lending

The Manager has enabled securities lending on various internationally-domiciled funds, in order to generate additional income for the fund. While the Fund does not currently engage in securities lending, the Underlying Fund does participate. The lending agent, a member of the BlackRock Group, earns a fee from the lending income, which is shared between the agent and the

Fund. Typically, UK domiciled funds retain about 62.5% and US domiciled funds retain at least 70% of the income. All costs are covered by the generated income, with no fees if no income is produced. Additionally borrowers are required to post excess collateral of at least 102.5% of the loan value.

## Underlying index

The MSCI Emerging Markets ex China Index captures large and mid cap companies across 23 of the 24 Emerging Markets countries excluding China. The Underlying Index covers approximately 85% of the free float-adjusted market capitalization in each country.

INDEX METRIC	DATA
INDEX PROVIDER	MSCI
MARKET COVERED	EMERGING MARKET EQUITIES EX CHINA
WEIGHTING METHODOLOGY	FLOAT-ADJUSTED MARKET CAPITALISATION WEIGHTED
CONSTITUENT DETERMINATION	RULES BASED
CONSTITUENT FACTORS	SCREENS ON LIQUIDITY AND SIZE
REBALANCING FREQUENCY	QUARTERLY

## Transparency

iShares' ETF website is both comprehensive and user-friendly. It is designed as a self-service website with information relating to performance, current holdings and key portfolio characteristics for all iShares ETFs. However, the iShares website does not make the Underlying Index's Methodology publicly available to investors unlike some peers. Investors will have to refer to the Index Provider's website for the methodology.

## Liquidity

As at June 2024, the Fund will be listed with \$0.5m of initial seed money in FUM. This is very low compared to its peer group however Lonsec expects the FUM to grow over the medium term. Lonsec will continue to monitor how demand for the Fund impacts its liquidity and bid / ask spreads.

The Fund's underlying constituents comprise the large and mid-cap sectors of emerging market (ex China) equity securities. Investors should be aware that during normal market conditions there should be reasonable liquidity for these securities, however during periods of heightened volatility liquidity has the potential to deteriorate. Additionally, some emerging markets can be subject to extreme volatility at times which will likely adversely impact liquidity.

## Fees and Indirect Costs

The Fund's AFC is very competitive within its peer group. However, the Fund is the only ETF in the ASX offering this exposure.

The Fund is newly launched and bid/ask spread cannot be readily estimated. Lonsec will monitor this in future reviews.

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## Fee comparison

FUND NAME	AFC (% P.A.)	AVERAGE BID/ASK SPREAD (% P.A.)
ISHARES MSCI EMERGING MARKETS EX CHINA ETF (EMXC)	0.30	~^
ISHARES MSCI EMERGING MARKETS ETF (IEM)	0.75	0.1
VANGUARD FTSE EMERGING MARKETS SHARES ETF (VGE)	0.49	0.15
VANECK MSCI MULTIFACTOR EMERGING MARKETS EQUITY ETF (EMKT)	0.82	0.17

Source: ASX daily average bid/ask spread over 12 months to May 2024.

^Fund has less than one month's track record.

## Performance

The Fund was listed on 13 June 2024 and is still establishing a track record. Lonsec prefers to observe a Fund's performance over an investment cycle before drawing any meaningful observations on fund performance.

However, the Underlying Fund has maintained reasonably tight performance relative to the Underlying Index since its inception in April 2021.

## Risks

**An investment in the Fund carries a number of standard investment risks associated with domestic and international 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:**

### Equity market risk

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

### Performance risk

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

### Tracking error risk

The Fund seeks to minimize the Tracking Error against the Underlying Index it aims to match. There is no guarantee that this objective will be met.

### Foreign exchange risk

Returns from any investment in the Fund may be eroded or enhanced due to the effects of movements in the AUD relative to the local currencies of the securities in the Fund.

### Securities lending risk

The risk that the borrower may fail to return the securities in a timely manner or at all. This may result

in the Fund losing money and a possible delay in recovering the securities. If the lent securities are not recovered and the value of the collateral falls, the Fund could suffer a loss. BlackRock provides a guarantee for all of its ETF in the event of a borrower default. The Underlying Fund may lend up to one-third of the value of its total assets.

### Derivative risk

BlackRock may utilise derivative instruments, including futures to equitise cash, and for risk management purposes. Derivatives will not be used to leverage the portfolio.

In addition to any risk associated with the underlying asset (or index) for which a derivative is valued, derivative prices are affected by other factors including:

- Market liquidity;
- Interest rates; and
- Counter-party risk

### Counterparty Risk

The Fund takes on counterparty risk with regard to its market-making activities. Counterparties may default on their contractual obligations, potentially exposing investors to some financial losses.

## Further information

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

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## iShares MSCI Emerging Markets ex China ETF

### Glossary

[Click here for the glossary of terms.](#)

### 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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