BLACKROCK EMERGING MARKETS FUND (AUST)

BlackRock

FUND UPDATE **31 July 2024**

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
BlackRock Emerging Markets Fund (Aust) (D Class)[1] (Net of Fees)	0.44	0.12	5.40	1.07	–	–	3.90
MSCI All Country World Net TR Index (in AUD)	2.58	4.26	12.65	9.66	–	–	13.25
Outperformance (Net of Fees)	-2.14	-4.14	-7.25	-8.59	–	–	-9.35

[1] Fund inception: 07/24/2023.

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

GEM July 2024

Market Overview

MSCI EM was flat on the month, underperforming DM despite an improving macroeconomic backdrop. Whilst dollar weakness and a rising probability Fed easing in September were supportive, growing concerns stemming from US elections a bear-biased discussion on tariffs weighed on sentiment. Subsequently, the asset class experienced outflows in both equities and fixed income. Defensive sectors like healthcare, utilities, and staples outperformed, whilst IT, energy and communication services lagged.

In a reversal from June, EEMA was the best performing region in EM, with strong returns coming from Greece, UAE, Egypt and South Africa. The Middle East rebounded after 3 months of weakness as 2Q earnings were largely better than expected. South Africa also grinded higher supported by rising gold prices and positive sentiment surrounding the Government of National Unity's (GNU) policy agenda, including the signing of a "two-pot" pension law that will allow savers early access to their pensions from Sept 1, to help fuel consumption and pay down debt.

LatAm outperformed EM in July but remains in deeply negative territory YTD. Brazil saw a bit of an inflection, gaining over the month as May data was resilient, however, rising inflation expectations, resilient growth has resulted in a more hawkish position from the central bank. Additionally, fiscal imbalances and FX depreciation have limited maneuverability on the monetary side. Mexico was flat on the month, where a positive results season was tempered by a surprise announcement that outgoing President Lopez Orbador was looking to fast track 16 initiatives into the September Congress session.

EM Asia was the month's worst performing region, dragged down by a pull-back in the tech rally despite positive EPS revisions; Taiwan declined. Elsewhere, China also ended the month in negative territory, pulling back as US elections risk prevailed. However, the end of month Politburo meeting finished on a more upbeat note highlighting a need to boost domestic consumption, address overcapacity, and align economic and non-economic policy actions. Outside of North Asia, Thailand was a top-3 market in July. A rally in the Baht, was a major catalyst supported by stronger tourism and easing US rates pressure.

Fund Performance

The Fund underperformed its benchmark, the MSCI Emerging Markets (EM) Index, in July.

Drivers of Performance:

- Selection in India and China detracted most from relative performance over the month, while selection in UAE and overweight Indonesia contributed most to performance.
- In sectors, selection in financials and technology detracted most, while selection in materials and industrials contributed most.
- Overweight South Korean chip producer, SK Hynix, detracted most as the stock declined due to a broader sell off in Korean equities and global tech stocks amid US recession fears.
- Overweight Chinese clothing company, Shenzhou International Group Holdings, also detracted as consumption trends continue to deteriorate in China.
- Overweight South Korean defense manufacturer, Hyundai Rotem, was the top contributor to relative returns over the month after reporting strong earnings driven by increased exports of tanks, specifically to Poland and Romania.
- Overweight UAE real estate developer, Aldar Properties, also contributed to performance after beating earnings expectations amid accelerated growth.

Market Outlook

As higher global rates continue to feed through into the real economy globally we expect a demand slowdown to bite in developed markets. We have been flagging a potential inflection in US resiliency with clients over the past few months, noting that retail and auto sales have started to disappoint, manufacturing capex (ex-IRA) has slowed, and jobless claims have picked-up (now validated by the July's jobs report). In contrast we see better fundamentals in emerging markets (EM), particularly outside of China, versus Developed markets (DM). Monetary tightening across much of EM was ahead of that in developed markets as well as, in many cases, stronger than in past cycles, particularly in LatAm and Eastern Europe. With expectations of a Fed easing in September, we maintain conviction that rate cuts in EM can accelerate, supporting domestic activity.

In our view, the recent spike in volatility was caused by a mixture of events that unfortunately coincided in a very tight time frame. However, the weak US jobs print, unwind of the USD/JPY trade, NVDA next-gen chip delays, and rising tensions in the Middle East have little in common, and whilst the immediate risk-off sentiment may delay a rotation in capital flows, we believe the strong market response should provide ample mispricing opportunities. Selectivity will be key but we want to be net buyers through this weakness.

The shifting geopolitical landscape which is leading in our view to a re-organization of globalization is supportive of many parts of emerging markets. We see a World splitting into three groups: those aligned with China, those aligned with the US and the rest. The latter group which we have coined the "Transactional 25" are uniquely positioned to benefit from their ability to trade with both blocs, and are already seeing an increase in their share of global Foreign Direct Investment (FDI) flows. Beneficiaries include Indonesia, Mexico and India among others.

Indonesia, for instance, is the world's largest exporter of nickel, vital in the making of batteries for electric vehicles. As the value of nickel exports multiplies this represents an important shift for a country that has historically run a current account deficit. The size of the increase that we are seeing in nickel exports is such that the structural current account deficit of around 3% of GDP that Indonesia saw pre covid, has already shrunk by around 1% of GDP and is likely to shrink by a further 1% of GDP by 2025. This should have the benefit of making Indonesia less reliant on borrowing from abroad and attracting foreign capital potentially resulting in increased domestic liquidity and higher economic growth.

Our view of India, informed by recent investor visits, is more positive than it was at this time last year although we remain underweight given recent strong price action. Many of the data points we were more cautious about entering 2023 (balance of payment deficit, weak monetary policy, and Adani spillover), have materially improved. All the while two positive trends are emerging – first the acceleration in India's chemicals and industrial manufacturing businesses, in part due to the World in three dynamics laid out above. Second, is the boom in service exports as more and more smaller and mid-sized companies across industries are integrating remote labor into their operating model. We struggle to be meaningfully overweight given the strong and enduring re-rating of the market in recent years which is affecting all market segments and now encompassing many lower quality stocks.

We are cautious on China and underweight in portfolios. In our view we are entering the "great reversal" where core drivers of China's success over the past 20 years, ranging from globalization to urbanization, start to head in the opposite direction. Real estate, fixed asset investment and consumer confidence all look troubled. Long term we see China looking more like a traditional deep liquid stock market with plenty of individual opportunities within the market rather than a China beta growth story. In the absence of large scale QE we are not inclined to chase the recent rally from oversold levels.

Elsewhere in Asia we remain cautious on the retail momentum in Korean battery and component manufacturers, as well as AI-related Taiwanese tech names. In our view, the recent tech pull-back has uncovered vulnerability at current valuation levels given extensive overcrowding by both institutional and retail investors. While it is clear that AI will result in an incredible amount of spend going forward, it is the pace of downstream developments across industries (autonomous driving programs or strategy optimization in more traditional businesses like insurance or consumer sectors through big data application etc) which will be key in determining the level of hardware demand. We believe there is room for the sector to correct further, but dominant market players, with clear tech advantages are look more attractive post-correction given persistent tightness in the memory sector.

We remain optimistic about Latin America. Central banks have been proactive in increasing interest rates to help control inflation, which has started to fall across most countries in the region. With inflation at the lower range, we have started to see central banks beginning to lower interest rates, which should support both economic activity and asset prices. In addition to this normal economic cycle, the whole region is benefitting from being relatively isolated from global geopolitical conflicts. We believe that this will lead to both an increase in foreign direct investment and an increase in allocation from investors across the region.

We've periodically revisited our Brazil thesis over the past few months. Real rates at 6-7% remain very attractive, however the delay to cut rates to stimulate the economy has led to a slip in the fiscal with a projected 2% deficit vs their 0% target and a public bashing of the central bank for stunting domestic growth; both points acting as short term overhangs to the market. Whilst near-term negative, we note that the balance of payments remains healthy and positive real rate will act as a counterbalance to these issues. We think policy will prove orthodox enough and the

Top Holdings

Holding	Weight %
TAIWAN SEMICONDUCTOR MANUFACTURING	8.89
TENCENT HOLDINGS LTD	5.24
SAMSUNG ELECTRONICS LTD	3.50
CHINA CONSTRUCTION BANK CORP H	3.22
AXIS BANK LTD	2.43
SK HYNIX INC	2.35
MEDIATEK INC	2.26
RELIANCE INDUSTRIES LTD	2.11
SAMSUNG ELECTRONICS NON VOTING PRE	2.08
JSC KASPI KZ GLOBAL SPONSORED ADS	1.96

Country Exposure

Country	Weight %
Brazil	7.79
Canada	0.77
Chile	0.00
China	19.93
Colombia	0.00
Czech Republic	0.00
Egypt	0.99
Germany	0.52
Greece	0.01
Hungary	1.28
India	17.20
Indonesia	4.20
Kazakhstan	1.96
Korea (South), Republic of	10.09
Kuwait	0.01
Malaysia	0.01
Mexico	4.23
N/A MSCI Country	2.36
Peru	0.00
Philippines	1.20
Poland	1.45
Qatar	0.01
Russian Federation	0.00
Saudi Arabia	0.63
South Africa	0.77
Taiwan (Republic of China)	16.54
Thailand	1.47
Turkey	1.20
United Arab Emirates	1.67
United States	0.73

eventually the central bank will be able to recommence the easing cycle supporting an economy that was already showing signs of upwards inflection and supporting asset prices.

We remain positive on the outlook for the Mexican economy as it is a key beneficiary of the friend-shoring of global supply chains. Mexico remains defensive as both fiscal and the current accounts are in order. The outcome of the presidential elections in early June has created a lot of volatility for Mexican financial assets, with the peso depreciating significantly. Investors are concerned that the landslide win of president-elect Sheinbaum and the Morena party will result in reduced checks and balances for the government and potentially detrimental judicial reforms. We have visited Mexico in the week after the election to meet with investors, business owners and political advisors. Our conclusion from that trip is that we believe the government will remain relatively pragmatic and fiscally prudent, as it has been during AMLO's term. We have therefore used the market correction to add to certain positions.

About the Fund

Investment Objective

The Fund seeks to maximise total return by investing in a portfolio of emerging market securities.

Investment Strategy

The Fund aims to achieve its investment objective through investing in the BGF Emerging Markets Fund (Underlying Fund). The Underlying Fund invests globally at least 70% of its total assets in the equity securities of companies domiciled in or exercising the predominant part of their economic activity in, emerging markets. Investment may also be made in the equity securities of companies domiciled in, or exercising the predominant part of their economic activity in, developed markets that have significant business operations in emerging markets.

The Underlying Fund is actively managed by BlackRock Investment Management, LLC, along with other co-adviser entities that are part of the BlackRock group (Investment Adviser). The Investment Adviser has discretion to select the Underlying Fund's investments. In doing so, the Investment Adviser will refer to the MSCI Emerging Markets Index (Index) when constructing the Underlying Fund's portfolio, and also for risk management purposes to ensure that the active risk (i.e., degree of deviation from the Index) taken by the Underlying Fund remains appropriate given the Underlying Fund's investment objective and policy. The Investment Adviser is not bound by the components or weighting of the Index when selecting investments. The Investment Adviser may also use its discretion to invest in securities not included in the Index in order to take advantage of specific investment opportunities. However, the geographical scope of the investment objective and policy may have the effect of limiting the extent to which the portfolio holdings will deviate from the Index.

Should be considered by investors who ...

- Seek to invest in a Fund which provides investors with access to a professionally managed portfolio of emerging markets securities.
- Seek an actively managed fund without benchmark constraints. The Underlying Fund is actively managed, and the Investment Adviser is not constrained by benchmark weights or components.
- Want an investment which provides access to emerging markets. Through investing in the Fund, investors can gain access to securities and markets which can otherwise be challenging for an individual investor to access directly.

Fund Details

BlackRock Emerging Markets Fund (Aust)	
APIR Code (Class D)	BLK5644AU
Buy/Sell Spread	0.00%/0.00%
Fund Size	$ 51,982*
Management Fee (Class D)	0.95% p.a.

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

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