

# BLACKROCK HIGH CONVICTION AUSTRALIAN EQUITY FUND

**BlackRock**

FUND UPDATE

31 August 2024

## Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	Since Manager Incep <sup>3</sup> pa	2 Yrs pa	3 Yrs pa	5 Yrs pa	Since Incep <sup>4</sup> pa
Class D (Net of Fees)	-0.38	4.76	9.32	14.19	14.34	5.97	-5.92	1.53	5.14
Benchmark <sup>2</sup>	0.44	5.55	8.95	14.65	14.07	10.03	2.85	5.79	8.03
Outperformance (Net of Fees)	-0.83	-0.79	0.37	-0.46	0.27	-4.06	-8.78	-4.26	-2.89
S&P/ASX 300 (for comparative purposes)	0.44	5.55	8.95	14.65	14.07	11.77	6.37	8.05	9.74

<sup>1</sup> Unadjusted class D performance since inception date of 4th January 2016

<sup>2</sup> The Fund benchmark from inception to 9 March 2023 was the S&P/ASX300 Industrials Accumulation Ex Top 5 Stocks by Mkt Cap Gross Index. From 9 March 2023 the Fund benchmark was S&P/ASX300 Accumulation Index

<sup>3</sup> With an inception of 29th March 2023, Pandal Group took over management of this strategy on a sub-advisory basis

Please see \*\* in the footnotes of further information.

## Performance Summary – August 2024

### August monthly review

Australian equities largely round-tripped in August.

Weaker-than-expected jobs data saw fears of US recession spike early in the month. At the same time the Bank of Japan raised interest rates for the first time in 17 years, which saw the yen rise and an unwind of various carry trades.

This saw the S&P/ASX 300 fall over 5%. However comments from the Fed which firmed expectations about an imminent cut in rates and subsequent data points which calmed fears around the US economy, saw markets subsequently recover.

A largely benign earnings season in Australia painted a picture of a domestic economy which is holding up reasonably well, which also helped underpin the market's rebound.

The S&P/ASX 300 finished up 0.44%.

Information technology (+7.20%) was the strongest sector, driven largely by a well-received result from Wisetech Global (WTC, +25.05%), the largest stock in the sector. Technology One (TNE, +11.32%) also did well among the larger index weights.

Industrials (+3.54%) also outperformed. Brambles (BXB, +17.16%) was the stand out performer – again, on a well-received result – however Transurban (TCL, +4.15%), Computershare (CPU, +4.36%), Qantas (QAN, +3.87%) and Seven Group (SVW, +5.67%) also outperformed.

Energy (-6.17%) underperformed as oil prices continued to soften and the fuel retailers saw weakness in Convenience sales. Woodside Energy (WDS, -1.49%), Santos (STO, -7.25%) and Ampol (ALD, -11.77%) all lost ground.

Materials (-1.73%) also lagged as poor sentiment towards China's growth weighed on commodity prices. BHP (BHP) fell -3.62% while Rio Tinto (RIO, -2.71%) and Fortescue (FMG, -3.18%) also softened.

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## Fund Performance

The portfolio returned -0.38% (Class D, net of fees) in August, underperforming the benchmark return of 0.44% by 0.83%.

Slightly disappointing updates from Mineral Resources, QBE Insurance and Santos detracted. The underweight in Wisetech also detracted, although there was some offset from good performance from the positions in Technology One and Xero. There were also solid contributions from some of the portfolio's more cyclical industrial exposures, including Orora, Qantas and Downer.

## Contributors

### Overweight Orora (ORA, +25.00%)

ORA initially rose on news it had received and rejected a bid from private equity group Lone Star. Then it delivered a stronger-than-expected 4Q24 EBIT performance from its US packaging distribution business, after having to downgrade earnings following a weak 3Q. Saverglass, its French-based glass bottle manufacturing business, delivered in-line with expectations, guided for flat earnings in 1H FY25 in a challenging environment, and said that glass volumes would recover in 2H FY25 as destocking comes to an end. Finally, ORA said it was engaged in discussions with an undisclosed party to sell its US distribution business.

### Overweight Technology One (TNE, +11.32%)

TNE hosted a well-attended investor day which was incrementally supportive to the investment thesis that they are able to accelerate profit-before-tax growth from 10-15% to 15-20% over the medium term. A demonstration of the software helped build an understanding of the quality of their offering whilst management also provided more detail on the addressable market, helping the market dimension the growth profile.

### Underweight Cochlear (COH, -12.94%)

COH's FY24 result missed expectations, after being upgraded through the year. Some costs were taken in FY24, which held profitability back. Irrespective, FY25 guidance also underwhelmed on reinvestment into the business. The volume outlook remains favourable, but it is requiring more cost and reinvestment in order to achieve those outcomes.

## Detractors

### Overweight Mineral Resources (MIN, -26.03%)

MIN fell initially on news that a government ruling implied it was unlikely to receive LNG export approval for its Perth Basin gas assets. Then its result included weak FY25 guidance with balance sheet stress meaning no final dividend and a focus on reducing costs in FY25. Capex guidance was higher than expected, with net debt due to rise further, peaking mid-FY25. After that, earnings from its ramped-up Onslow project should drive deleveraging. The negative capex surprise was compounded by a cut to lithium production volumes.

### Overweight QBE Insurance (QBE, -11.38%)

QBE's 1H result was in line with consensus, but out years were downgraded 6% due to a collection of small items, including lower revenue guidance, higher taxes, and an accounting change on software amortisation. Underlying trends were reasonable. Operating margins matched consensus and should improve as non-core lines are exited. We take some comfort from company's de-risking over recent years with portfolio exits, mix shift, reserve transactions and a higher catastrophe budget.

### Overweight Santos (STO, -7.25%)

STO's first half result missed expectations slightly due to costs being at the upper end of the forecast guidance for the year, with some one-off impacts like weather in the Cooper Basin. Despite this, cost control remains solid and a core part of the investment case. Project delivery was also solid, with an important 12 – 18 months for the Barossa and Alaska projects. The outlook for capital deployment remains tightly controlled; with growth de-emphasised over returns to shareholders. There is some debate over medium term free cash flows, but they look to remain in-line with market expectations.

## Strategy and outlook

Recent datapoints suggest that the US economy is slowing, but not sliding into recession.

Importantly, the "Fed put" is back in play with regard to monetary policy. The US central bank has signalled that its focus has shifted from inflation to labour markets and that it stands ready to act if the latter starts to decelerate too quickly.

This is supportive for equities as it reduces the tail risk of a recession. Should the economy slow quicker than expected it will still affect the market, but the downside is limited as it would be mitigated by more accelerated easing.

The more material tail risk is a re-acceleration of inflation as the economy cools, but this looks unlikely for now.

Overall, Australian reporting season showed that the consumer has continued to hold up better than expected. Younger age-cohorts are cutting into discretionary spending, however this is offset by continued consumption growth in older cohorts. Income tax cuts and slowing inflation is expected to help real incomes start to recover.

Credit conditions have improved, benefiting the REIT sector. This all reflects an economy which is slowing but holding up reasonably well.

FY24 EPS for the ASX 200 fell -4.5%, although this was driven largely by Resources (-14.0%) and by Banks (-1.5%). Industrials ex-Financials saw EPS rise 4.9%. Reporting season saw consensus earnings expectations for FY25 cut from 3.7% to 0.4%. Again, Resources (-6.6%) is expected to be the largest drag. Banks are expected to see EPS largely flat (+0.3%) and Industrials ex Financials rise 7.9%.

We are moving into a seasonally weak period for equity markets. That said, the combination of earnings supported by a slowing – but still growing – economy and inflation trending down provides a relatively benign backdrop for equities.

## Top 10 Holdings Alphabetically

Stock
BHP GROUP LTD
COMMONWEALTH BANK OF AUSTRALIA
CSL LTD
GOODMAN GROUP UNITS
NATIONAL AUSTRALIA BANK LTD
QANTAS AIRWAYS LTD
SANTOS LTD
TELSTRA GROUP LTD
WESTPAC BANKING CORPORATION CORP
XERO LTD

Source: BlackRock

## Sector Exposure

Sector	Weight %
Financials	28.45%
Materials	17.21%
Health Care	10.73%
Communication Services	8.78%
Information Technology	7.01%
Industrials	6.41%
Energy	5.06%
Real Estate	4.68%
Consumer Discretionary	3.10%
Consumer Staples	2.38%
None	0.24%
Utilities	-

Source: BlackRock

## About the Fund

This strategy is sub-advised by Pental Group. The strategy is operationally managed by BlackRock and aims to replicate the Pental Focus Australian Share Fund as closely as possible.

## Investment Objective

The Fund aims to provide a return (before fees, costs and taxes), that significantly exceeds the S&P/ASX300 (TR) Index over the medium to long term.

## Description of Fund

This Fund is designed for investors who want the potential for long term capital growth and tax effective income from a concentrated portfolio of primarily 15-30 Australian shares and are prepared to accept higher variability of returns. The Fund may also hold cash and may use derivatives.

Pental's investment process for Australian shares is based on our core investment style and aims to add value through active stock selection and fundamental company research. Pental's core investment style is to select stocks based on our assessment of their long term worth and ability to outperform the market, without being restricted by a growth or value bias. Our fundamental company research focuses on valuation, franchise, management quality and risk factors (both financial and non-financial risk).

Derivatives may be used to reduce risk and can act as a hedge against adverse movements in a particular market and/or in the underlying assets. Derivatives can also be used to gain exposure to assets and markets.

## Fund Positioning

The Fund is designed to complement a conventional, core share portfolio by providing satellite exposure to selected Australian equities with the potential for performance enhancement.

## Investment Team

Pental's nineteen member Equity team is one of the largest in the Australian fund's management industry. The portfolio manager for the Fund is Crispin Murray, who has more than 31 years' industry experience. Crispin is also Head of Equity.

Fund Details	
BlackRock High Conviction Australian Equity Fund	
APIR Code (D Class)	BLK0012AU
Fund Size/strategy Size	\$14m/\$190m
Buy/Sell Spread	0.25%/0.25%
Liquidity	Daily

  

Investment Guidelines	
Ex-ante tracking error	3.0% - 6.0%
Max absolute stock position	15%
Min/Max sector position relative to Index	+/- 15%
Min/Max BARRA style factors	+/- 0.5 SD
SIRA style factors	Within 1 SD
Maximum cash level	30%
Shorting	No
Borrowing	No

^^ Performance figures represent past performance and are not indicative of future performance. Current performance may be higher or lower than that shown. Net performance figures are calculated after fund management fees and expenses, and assume reinvestment of distributions. Unless otherwise stated, performance for periods greater than one year is annualised and performance calculated to the last business day of the month.

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