

# BLACKROCK EMERGING MARKETS FUND (AUST)

**BlackRock**

## FUND UPDATE

30 September 2024

### Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
BlackRock Emerging Markets Fund (Aust) (D Class) <sup>1</sup> (Net of Fees)	1.75	-0.40	4.53	5.88	-	-	2.61
MSCI All Country World Net TR Index (in AUD)	4.33	4.66	14.94	17.27	-	-	13.19
Outperformance (Net of Fees)	-2.58	-5.06	-10.42	-11.38	-	-	-10.58

<sup>1</sup> 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 September 2024

### Market Overview

In September, the MSCI EM Index rallied, significantly outpacing DM, driven by an improving macro backdrop across regions. The Fed began its easing cycle a 50bps cut. Whilst on the higher end of the range, confidence that inflation would continue its downward trend, and that the move was to help prevent a further softening of the job market was viewed positively. Continued US Dollar weakness provided a tailwind for much of EM.

EM Asia was the month's top performing region driven primarily by China, following a dramatic change in PBoC stance following the Fed cut, with the Politburo meeting highlighting the need for urgent policy action to combat economic weakness. This resulted in a meaningful combination of monetary easing and increasing lending facilities for equity purchases and buy backs to help support the stock market, as well as a further relaxation in housing purchase restrictions in Tier-1 cities. The market surged in September on shifting sentiment. ASEAN also performed benefitting from FX appreciation vs the USD. Thailand was another standout market also supported by improved political stability and an uptick in economic activity.

EEMA gained amid greater performance divergence within the region. South Africa rallied again, supported by a rate cut, stronger FX, and indirect benefit from China's stimulus action, with Naspers up over the month. Whilst Middle East markets showed resiliency agais the escalating conflicts between Israel and Hezbollah, oil prices fell another c9%, breaking their lowest level since 2021, in anticipation of higher production from Saudi Arabia and slowing US growth. Poland and Turkey lagged.

Latin America finished the month relatively flat, driven by negative returns in Brazil and Colombia. Brazil's Copom moved against the Fed's more dovish trend by raising rates 25bps to 10.75% amid a tight labor market and persistent inflation, dampening the effects of US easing and China stimulus. Mexico gained in September as the central bank cut rates by 25bps but refrained from providing too much forward guidance on the back of uncertainty surrounding both domestic and external factors impacting growth. It is worth mentioning that AMLO's judicial reform was passed, though attention has now shifted to president-elect Sheinbaum's anticipated inauguration speech and the shape her policy agenda will take.

## Fund Performance

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

### Drivers of Performance:

- ▶ Stock selection in Kazakhstan and underweight China detracted most from relative performance over the month, while underweight Saudi Arabia and selection in Taiwan contributed most.
- ▶ In sectors, selection in financials and underweight consumer discretionary detracted most, while selection in communication services and technology contributed most.
- ▶ Off-benchmark holding of Kaspi, a Kazakh e-commerce and payments platform, detracted most as the stock declined after a short seller report alleged the company has Russian business ties and may face sanctions. While the headline is negative, we view several of the accusations to be either factually incorrect or lacking in understanding of Kazakhstan.
- ▶ Not holding Chinese shopping platform, Meituan, also detracted as the stock surged after the Chinese government announced their stimulus package, boosting the broader equity market.
- ▶ On the other hand, overweight Chinese real estate company, KE Holdings (BEKE), was the top contributor to relative returns over the month. The stock similarly rallied on news of Chinese stimulus aimed at easing the property sector along with the company's announcement of strategic share buybacks.
- ▶ Overweight Pinduoduo (PDD), a Chinese online retailer, also contributed as the stock rallied along with the broader Chinese equity market.

### Market Outlook

The commencement of the Fed's easing cycle should be net positive for EM assets, particularly amid reassurance that the 50bps cut was to preemptively manage slowing growth and labour dynamics. Whilst the delay has been challenging, we maintain conviction that EM fundamentals remain robust and that stronger growth, now coupled with greater policy maneuverability, should result in reduced risk premia.

The shifting geopolitical landscape has not changed, and in our view, will continue to support a re-organization of globalization that will benefit 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. 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. Other long-term beneficiaries include Mexico and India.

China's unexpected policy pivot in September and subsequent stimulus announcements mark a material shift in policymakers' and in particular President Xi's attitude towards reflating the economy. It was surprising to see policymakers cut the PBOC policy rate, RRR, and rates on existing mortgages at the same time and whilst we the measures themselves are not a game changer for the economy yet, the events have created a confidence boost for asset prices, and actions such as the replacement of economic advisors have an important signaling effect – the government's stepping in is seen as giving an effective floor to the market and has also driven a retail reawakening. Looking at the PBOC funding support so far, the 800bn RMB directed towards the stock market (500bn in swap facilities for qualified financial institutions and 300bn in relending facilities for buybacks) is a positive development to stabilize the market. However, an easing of property purchase restrictions (on both first and second homes) in tier-1 cities, as well as c120bn in funding to help address property oversupply feels lackluster in its support of the real economy; we question their effectiveness over the medium- to long-term. Prioritisation on reviving consumption and domestic confidence is a welcome change, however, to see meaningful improvements on fundamentals and sustainability of the rebound, we want to see more concrete announcements on the fiscal front.

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.

In Latin America we continue to be overweight Brazil. Whilst, contra to our initial thesis, the central bank embarked on a tightening phase to get ahead of persistent inflation, we are still excited about the bottom-up opportunities within the market as earnings have been strong across sectors. Real rates remain high and if policy makers are able to stem investor concerns surrounding recent fiscal slippage, we would expect to see a reversal in monetary policy that would drive the top down support we have patiently been waiting for. We have trimmed risk at the margin, particularly in the more rate sensitive exposures, and would look to add as rates peak once again.

We see Mexico's significant YTD underperformance to EM as an opportunity and have continued to add risk in recent months. Markets responded negatively to the passing of a controversial judicial reform, made possible by the Morena party's near super majority across both the lower house and senate. The government has shown very strong coordination to move through president AMLO's reform agenda, however, we maintain conviction that president-elect Sheinbaum will move away from some of the more controversial items and focus her attention on economic investment and the country's relationship with the US – the latter being a key sensitivity into the Nov election. Key cabinet appointments of Marcelo Ebard as economy minister, and Juan Ramon de la Fuente as foreign minister support this. Looking ahead our attention will be on her preliminary budget and how she hopes to address the growing fiscal deficit.

## Top Holdings

Holding	Weight %
TAIWAN SEMICONDUCTOR MANUFACTURING	7.80
TENCENT HOLDINGS LTD	6.11
SK HYNIX INC	2.85
PDD HOLDINGS ADS INC	2.56
CHINA CONSTRUCTION BANK CORP H	2.32
HAPVIDA PARTICIPACOES E INVESTIMEN	2.21
CIPLA LTD	1.98
LOJAS RENNER SA	1.95
CONTEMPORARY AMPEREX TECHNOLOGY LT	1.94
PRUDENTIAL PLC	1.93

## Country Exposure

Country	Weight %
Brazil	7.50
Canada	1.39
Chile	0.00
China	26.73
Colombia	0.00
Czech Republic	0.00
Egypt	1.06
Germany	0.59
Greece	0.00
Hungary	1.38
India	13.76
Indonesia	4.14
Kazakhstan	1.66
Korea (South), Republic of	8.14
Kuwait	0.00
Malaysia	-0.01
Mexico	4.84
N/A MSCI Country	1.68
Peru	0.00
Philippines	1.25
Poland	1.22
Qatar	0.00
Russian Federation	0.00
Saudi Arabia	0.84
South Africa	-0.02
Taiwan (Republic of China)	14.04
Thailand	0.91
Turkey	1.12
United Arab Emirates	1.60
United States	0.91

## 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	\$ 50,661*
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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