

BlackRock MADCX Global Emerging Markets Fund

BlackRock[®]

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Asset Class Introduction:

Emerging Markets

An Asset Class at a Glance

Risks Associated with Emerging Markets

Investing in emerging markets carries inherent risks, including political instability, currency fluctuations, and less established regulatory frameworks. Additionally, the fund's performance can be significantly affected by global economic conditions and market volatility. Prospective consult the fund's prospectus for a comprehensive understanding of associated risks.

At a Glance: Emerging Markets

- An emerging market is a country/economy in the process of transitioning from a developing to a developed economy.
- Emerging markets **evolve over time**, as **foreign investors' entry and exit create boom-bust cycles** by **driving demand and rapid revaluation**, which often outweighs domestic influence.
- In emerging markets, macro investors often look at each country's real interest rate, that is, the nominal interest rate minus the inflation rate.
- “Regarding emerging markets—in the early days they were not emerging, they didn't exist! So, in the course of my history, I actually participated in the **emergence of markets—let's say, opening up the Swedish stock market**. It was totally isolated and totally frozen.” - George Soros (Efficiently Inefficient...)
- “Shifting supply chain, energy transition, and geopolitical fragmentation” has led to investment abroad - BlackRock

Funds Investing in Emerging Markets

J.P.Morgan

 **Invesco**
Mutual Fund


Vanguard

charles
SCHWAB

BarclayHedge

Overview of Asset Class Strategy

Types of Strategies

- **Diversification:** Allocate investments across multiple countries to reduce region-specific risks.
- **Sector Focus:** Prioritize growth industries like technology, infrastructure, and consumer goods.
- **Currency Hedging:** Use financial instruments to protect against local currency devaluation.
- **Local Knowledge:** Partner with local firms or hire analysts with on-the-ground expertise.
- **Value Investing:** Commonly used for stocks with high expected returns which could be driven by compensation for risk, by institutional frictions, or by behavioral reasons.
- **Momentum Investing:** Buying recent winners and short-selling recent losers.

Why Emerging Markets

- Several motivating factors:
 - Investors seek to capitalize on the transition of emerging markets from developing to developed status, offering high growth potential but higher risk (e.g., Brazil, India, China).
 - Rapid GDP growth
 - Expanding middle class with increased consumer spending
 - Undervalued assets compared to developed markets
 - Emerging market central banks have more room to support growth and weather economic decelerations
- Potential Risks:
 - Stocks of small-capitalization companies entail unique risks (limited product lines, markets, financial resources)
 - Derivative instruments are more likely to be illiquid
 - Illiquid securities can be increasingly difficult to value
 - Poor corporate governance, non-normal returns, political risk, etc...

Asset Class Performance:

MSCI Emerging Markets Benchmark

Benchmark Recent Performance - MSCI

MSCI Performance

Represents large and mid-cap stocks across 24 emerging markets.

Covers approximately 85% of free float-adjusted market capitalization in each country.

Includes 1,278 constituents with diverse sector representation.

Monthly Return: 0.51%

Annualized Return: 3.94%

Sharpe Ratio: 0.21

Maximum drawdown: 65.25% from Oct 2007 to Oct 2008.

Cumulative return since 1999: 161%

Top Constituents:

Taiwan Semiconductor (10.00% weight, Info Tech)

Tencent Holdings (4.30% weight, Comm Services)

Samsung Electronics (2.59% weight, Info Tech)

Sector Breakdown:

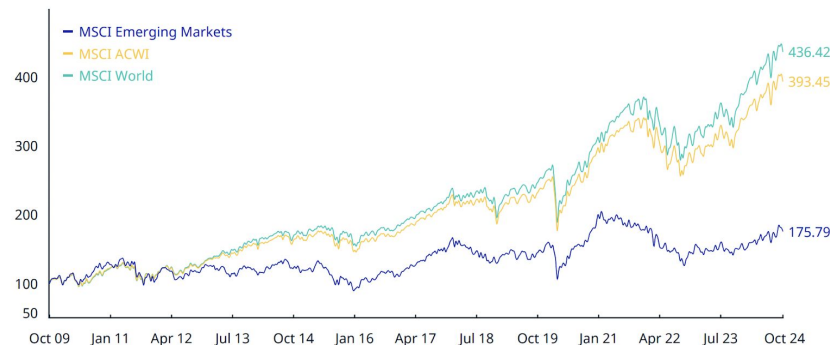
Information Technology: 23.71%

Financials: 23.21%

Consumer Discretionary: 13.5%

Underperforms S&P 500 and HFRI EM Index in terms of return and risk metrics.

CUMULATIVE INDEX PERFORMANCE – NET RETURNS (USD) (OCT 2009 – OCT 2024)



FUNDAMENTALS (OCT 31, 2024)

Div Yld (%)	P/E	P/E Fwd	P/BV
2.57	15.92	12.08	1.84
1.86	21.45	17.75	3.16
1.78	22.35	18.76	3.45

Benchmark Recent Performance - HFRI

HFRI EM Overview

HFRI EM Index: Monthly Return: 0.83%

Annualized Return: 9.44%

Sharpe ratio: 0.59

Maximum drawdown: 43.37% during Asian financial crisis, late 1997

Cumulative return since 1990: 2,129%

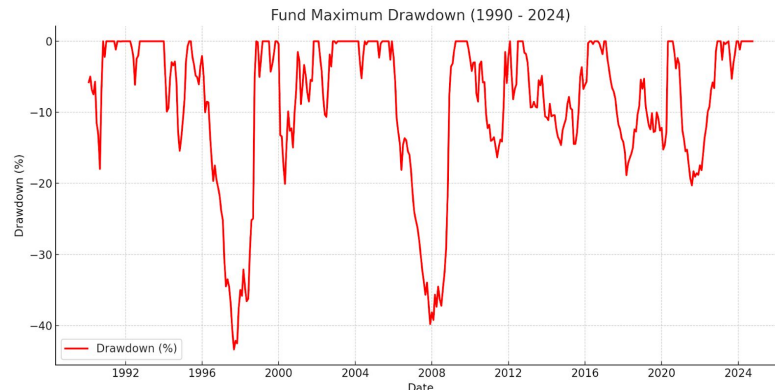
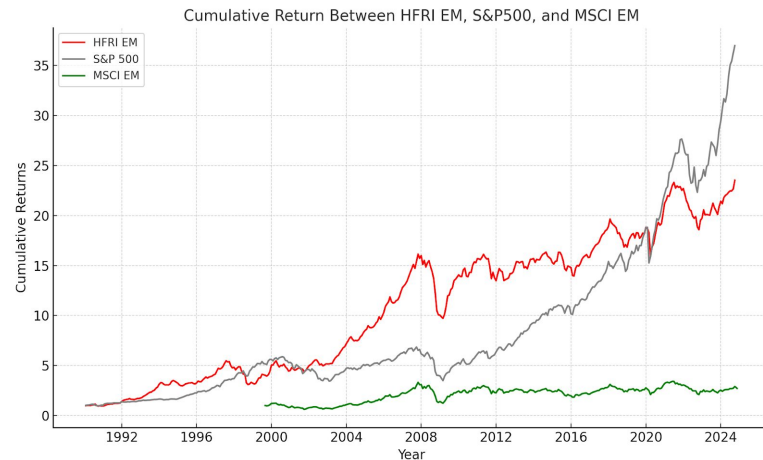
The information ratio (IR) of the HFRI EM to the S&P is -0.05, indicating a negative return compared to the benchmark S&P.

S&P 500: Monthly Return: 0.91%

Annualized Return: 10.61%

Sharpe ratio: 0.70

Maximum drawdown: -60.4%



Operational Due Diligence

Operational Due Diligence

People & Organization



Gordon Fraser (joined 2006):

- Portfolio Manager, Managing Director and Co-Head of Global Emerging Markets Equities for the Fundamental Active Equity Division
- University of Cambridge, Philosophy and Economics



Emily Fletcher (joined 2006):

- Portfolio Manager and Managing Director In Global Emerging Market Equities
- University of Cambridge, Physics



Kevin Jia (joined 2015):

- Portfolio Manager and Director
- Tsinghua University, Finance

Their roles revolve around the day-to-day management of the fund's portfolio, including the oversight of their investment strategy and the team.

Compliance and Legal Operations

BlackRock has various teams which handle compliance, legal, and regulatory tasks **in-house** for more efficient results

Regulations

Fund operates under the **Investment Company Act of 1940**, meeting **SEC** transparency requirements

Resilience and Stability

Since 1989, the fund has demonstrated **operational resilience** during major **financial crises** (e.g., 1997, 2008, and COVID-19) and has **low employee turnover**

Operational Due Diligence

Investor Communication

Emphasizes investor **communication, education and transparency**

Provides detailed **quarterly and annual fund reports** and regularly hosts investor events.

Turnover rates and expense structure are disclosed **publicly**

MSCI ESG Fund Rating (AAA-CCC) 1 as of Sep 21, 2024	A	MSCI ESG % Coverage 1 as of Sep 21, 2024	95.07
MSCI ESG Quality Score (0-10) 1 as of Sep 21, 2024	6.51	MSCI ESG Quality Score - Peer Percentile 1 as of Sep 21, 2024	77.57
Fund Lipper Global Classification 1 as of Sep 21, 2024	Equity Emerging Mkts Global	Funds in Peer Group 1 as of Sep 21, 2024	1,342.00
MSCI Weighted Average Carbon Intensity (Tons CO2E/\$M SALES) 1 as of Sep 21, 2024	355.13	MSCI Weighted Average Carbon Intensity % Coverage 1 as of Sep 21, 2024	91.97

Focus on Returns over ESG

Minimal emphasis on ESG; **prioritizes risk-adjusted returns** (i.e. Investments in Thermal Coal and Oil Sand corporations)

Provides “**sustainability characteristics**” for “**transparency and for information purposes only**”

- Could be viewed as **greenwashing**

Larry Fink, CEO of BlackRock, even stated that he will no longer use the word “ESG” as it has become too **politicized**.

- In his 2024 **Chairman’s Letter to Investors**, Fink omits the topic of ESG

Operational Due Diligence

Morningstar Medalist Rating



Morningstar has awarded the Fund a Bronze medal. (Effective May 8, 2024) [i](#)

Analyst-Driven % [i](#)
as of May 8, 2024

100.00

Data Coverage % [i](#)
as of May 8, 2024

100.00

Bronze Rating = Positive Rating

Expect to **outperform** its peers over market cycle of at least 5 years

Fund is in the bottom 50% of products predicted to generate **positive alpha**

Auditor

Deloitte & Touche

Custodian

BROWN 
BROTHERS
HARRIMAN

Investment Due Diligence

Fund Strategy & Process Overview

Investment Objective

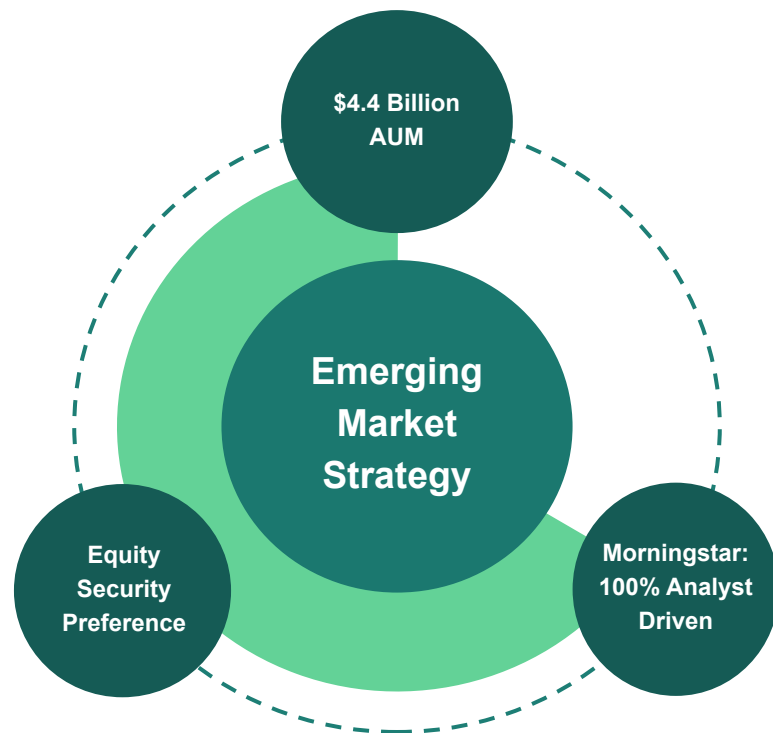
Invest in emerging market equities aiming to outperform the MSCI Emerging Markets Index. By combining top down macro views with in-depth fundamental research, the fund seeks to deliver consistent, long-term capital appreciation to investors.

Strategy

- The Fund invests at least 80% of its net assets plus any borrowings for investment purposes in equity securities of issuers located in countries with developing capital market
- The fund seeks to primarily buy common stock but also invests in IPOs, fixed income securities issued by companies and governments in countries with developing capital markets, as well as mezzanine investments
- **The team uses local expertise to select which companies to include in the portfolio**
- Seeks outperformance while employing a risk aware approach

Process Overview

- Investment team is based in Hong Kong and consists of 35+ analysts across 5 regional offices.
- Led by 3 portfolio managers each with over a decade of experience in the industry and a combined ~50 years at Blackrock.
- **The fund is analyst driven with most of the investment and idea generation process falling on the analysts.**



Portfolio Holdings & Investment Terms

Portfolio Holding Analysis

Top Sectors: Technology, Financial Services, and Communication Services dominate holdings

- Taiwan Semiconductor Manufacturing Co.: 7.66% of portfolio.
- Tencent Holdings Ltd.: 6.75%.
- **Blackrock Liquid Fund: 5.05%** (Large liquid allocation to weather downturns in emerging markets)
- SK Hynix Inc.: 2.82%

Top 10 holdings represent approximately 32.4% of assets

- **Turnover Rate:** 91% annual turnover rate indicates active management but results in higher transaction costs and tax implications for investors

Investment Term Analysis

Institutional class requires a \$2 million minimum investment

- Emphasizes a focus on large-scale or institutional investors
- No upfront load fees for the institutional share class, suitable for large-scale investors

Expense Ratio: 0.87% annually, covering management, administrative, and operational expenses

- Competitive for its category of diversified emerging markets funds

Distribution/12b-1 Fees: None

- Below average distribution fee level, reflecting limited marketing and distribution costs

Name	Market Value	Weight (%)	Shares
TAIWAN SEMICONDUCTOR MANUFACTURING	\$429,327,403.25	9.25	13,355,000.00
TENCENT HOLDINGS LTD	\$303,965,221.75	6.55	5,840,700.00
BLACKROCK LIQ FUND T-FD-IN	\$234,134,512.11	5.05	234,134,512.00
SK HYNIX INC	\$166,889,025.00	3.60	1,236,215.00
TAIWAN SEMICONDUCTOR MANUFACTURING	\$124,386,417.40	2.68	652,810.00
PDD HOLDINGS ADS INC	\$112,425,092.28	2.42	932,292.00
CIPLA LTD	\$95,896,170.78	2.07	5,196,423.00
PRUDENTIAL PLC	\$92,150,233.45	1.99	11,119,452.00
HAPVIDA PARTICIPACOE E INVESTIMEN	\$86,769,845.81	1.87	142,695,723.00
ITC LTD	\$86,547,297.57	1.87	14,888,375.00

Shareholder Fees (fees paid directly from your investment)	Investor A Shares	Investor C Shares	Institutional Shares
Maximum Sales Charge (Load) Imposed on Purchases (as a percentage of offering price)	5.25%	None	None
Maximum Deferred Sales Charge (Load) (as a percentage of offering price or redemption proceeds, whichever is lower)	None ¹	1.00% ²	None
Annual Fund Operating Expenses (expenses that you pay each year as a percentage of the value of your investment)	Investor A Shares	Investor C Shares	Institutional Shares
Management Fee ³	0.76%	0.76%	0.76%
Distribution and/or Service (12b-1) Fees	0.25%	1.00%	None
Other Expenses	0.34%	0.32%	0.24%
Acquired Fund Fees and Expenses ⁴	0.01%	0.01%	0.01%
Total Annual Fund Operating Expenses ⁴	1.36%	2.09%	1.01%
Fee Waivers and/or Expense Reimbursements ^{5,6}	(0.24)%	(0.22)%	(0.14)%
Total Annual Fund Operating Expenses After Fee Waivers and/or Expense Reimbursements ^{5,6}	1.12%	1.87%	0.87%

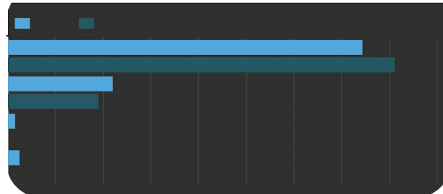
Portfolio Exposure

Market Cap Exposure

Employs a multi-cap style that allows for flexibility to respond to changing market and economic conditions, while also capitalizing from the growth potential of companies in emerging markets

- Greatest exposure is to Large Cap companies with a market cap >\$10bn (~74%)
- Greater exposure to small cap and cash / derivatives than the MSCI benchmark

Type	▲ Fund ▼	Benchmark ▶	Net ▶
Large Cap ->\$10bn	74.17	80.91	-6.74
Mid Cap - \$2-\$10bn	22.02	19.01	3.01
Small Cap -<\$2bn	1.41	0.08	1.33
Cash and Derivatives of Market Value	2.39	0.00	2.39



Sector Exposure

Focus on identifying underlying trends within the technology and financial sectors, focusing on companies that stand to benefit from such trends, while less on hard asset businesses.

- The MADCX Emerging Markets Fund is overweight in the Real Estate, Utilities, and Information Technology industries.
- It is underweight in Minerals, Energy, and Consumer Discretionary industries. A clear weighting of the portfolio accordingly is visible under this thesis.

Type	► Fund ▼	Benchmark ▶	Net ▶
Information Technology	25.33	23.71	1.62
Financials	22.89	23.21	-0.32
Consumer Discretionary	11.08	13.50	-2.42
Communication	8.90	9.02	-0.12
Industrials	7.95	6.66	1.29
Utilities	5.74	2.83	2.91
Real Estate	4.20	1.58	2.61
Health Care	3.94	3.49	0.44
Consumer Staples	3.89	4.98	-1.08
Materials	2.35	6.45	-4.10
Cash and/or Derivatives	2.31	0.00	2.30
Energy	1.43	4.57	-3.14

Show Less

Geographic Exposure

The portfolio strategy places a strong preference to countries with emerging businesses and markets. Strong preference to Asia while the remaining is invested in European, South America, and Middle Eastern emerging markets.

- Top 5 Geographic Exposures:
- China (26%), Taiwan (18.5%), India (~13%), Korea (7.5%), Brazil (7.5%)



Risk Management

Responsibility

As primary risk owners, BlackRock's investment businesses take responsibility for managing and mitigating risks. BlackRock purposefully built a risk framework that touches all aspects of the organization.

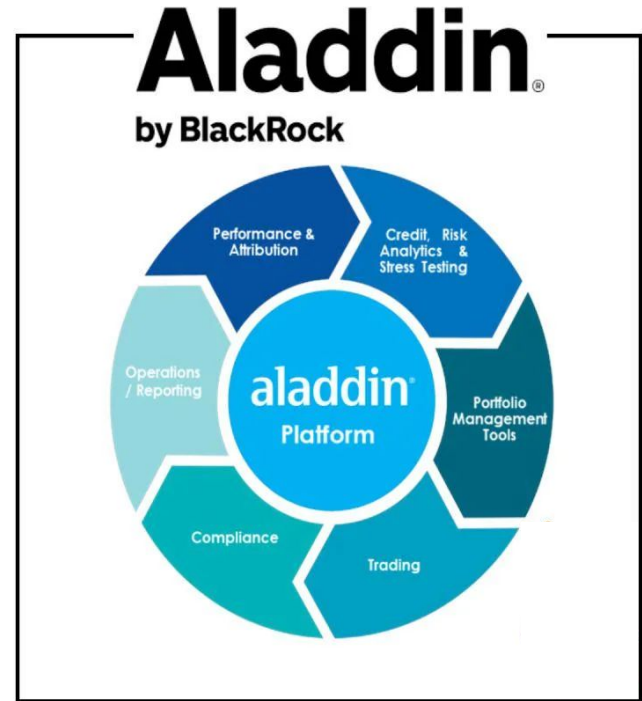
Risk Management Structure

- 1 The process starts at the top – with the board of directors – and includes many **governance committees** that look after key risks in the firm.
- 2 **Risk and Quantitative Analysis & Compliance and Financial Control** teams that measure and manage risk based on the controls put in place by primary risk owners
- 3 **Internal audit** is relied on as a “third line of defense” to substantiate and provide evidence that Blackrock's businesses are effectively addressing risk and control issues.

Aladdin¹:

- Aladdin Risk combines sophisticated risk analytics with quality-controlled data and highly scalable processing capabilities to identify opportunities and make more informed decisions.
- Aladdin Copilot (AI) serves to strengthen the connective tissue across the Aladdin platform, surfacing answers instantly to support key business decisions to unlock new efficiencies and uncovering actionable information faster.

Risk Management Software

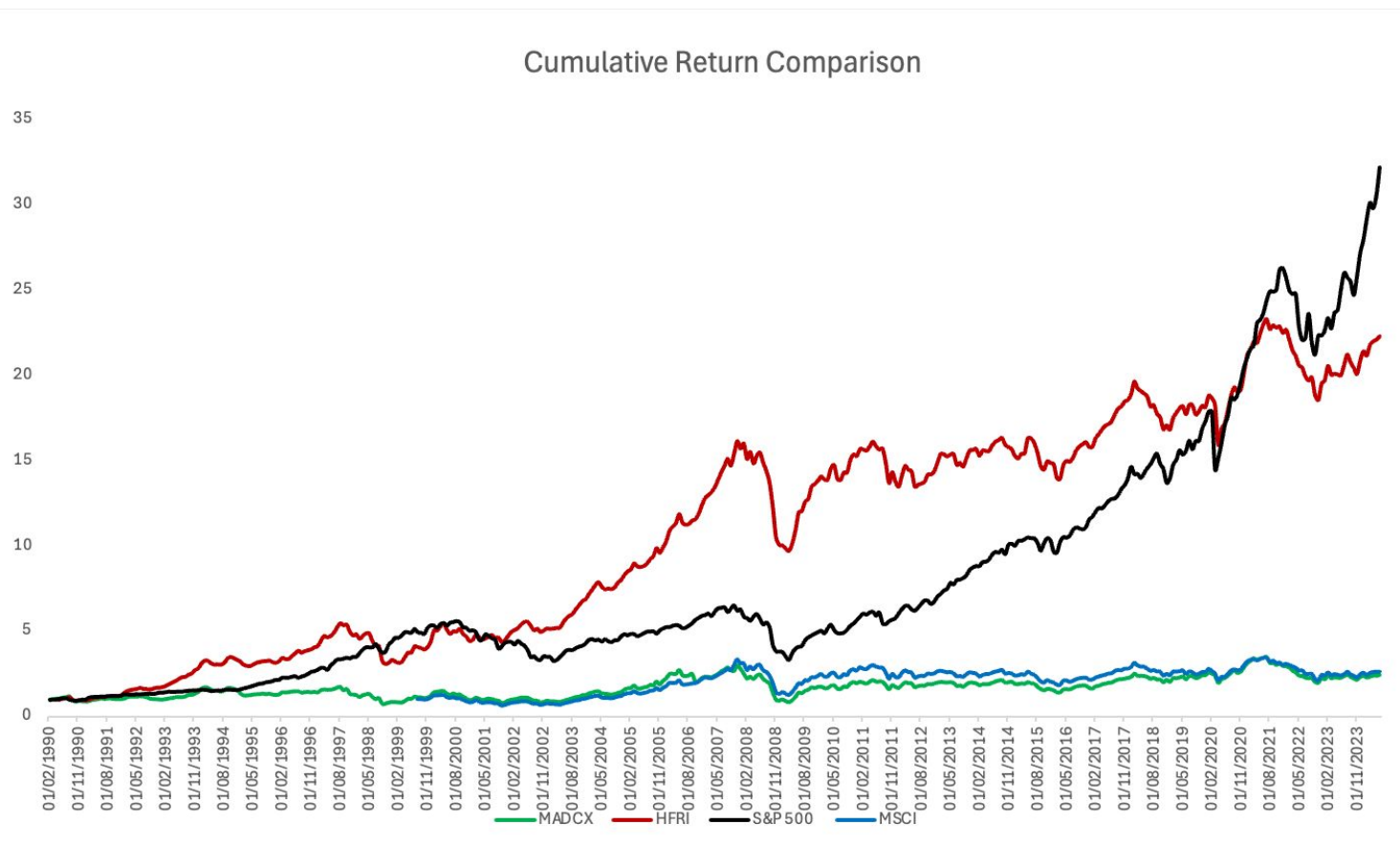


1. Risk managers leverage the capabilities of Aladdin to develop analytics and standards for firm-wide investment risk and performance measurement

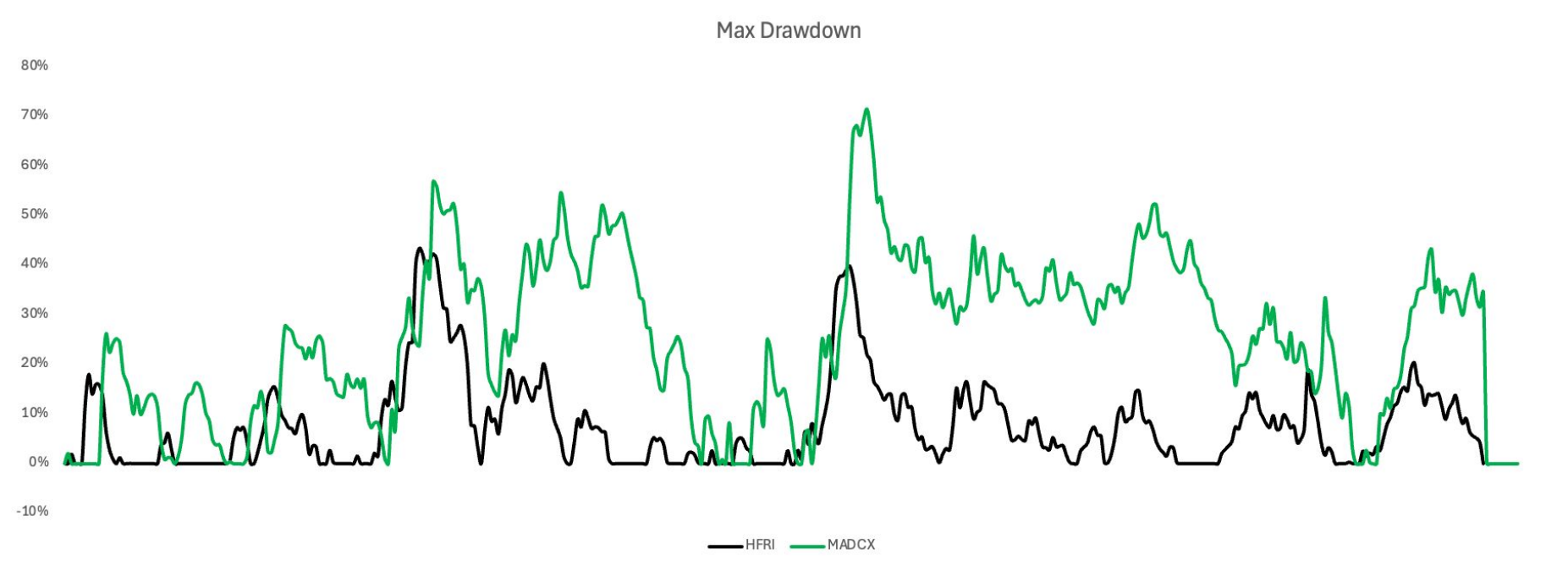
Blackrock MADCX Emerging Markets Fund:

Recent Performance

Overall Performance: Return



Overall Performance: Drawdown



Key Performance Metrics

MADCX Fund significantly underperformed all benchmarks, delivering the lowest cumulative return over the 30+ year period and an annualised return of just 2.63%

High volatility (22.42%) contributes to MADCX's low Sharpe Ratio of 0.11, trailing MSCI (0.21), HFRI (0.59), and S&P 500 (0.70). Combined with its modest returns, this highlights both elevated risk and underperformance in risk-adjusted terms

Negative skewness reflects the asymmetry of the distribution, indicating a higher frequency of large negative returns. Meanwhile, kurtosis near 3 suggests that the occurrence of extreme outliers, whether large losses or gains, is not unusually high. Together, they highlight that while the distribution is skewed, the overall likelihood of extreme events remains moderate

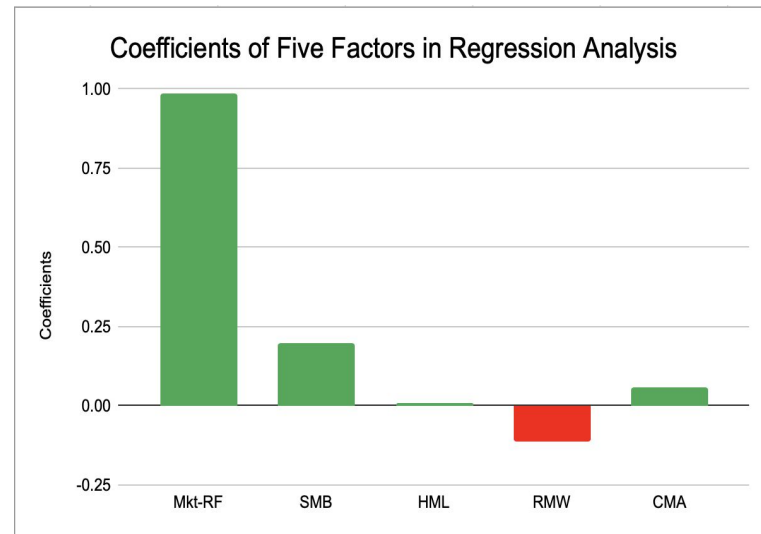
	MADCX	MSCI (Since 09/1999)	HFRI	S&P 500
Cumulative Return	144%	161%	2129%	3119%
Average Monthly	0.43%	0.51%	0.82%	0.91%
Compound Monthly	0.22%	0.32%	0.75%	0.84%
Annualised Return	2.63%	3.94%	9.44%	10.61%
Annualised St. Deviation	22.42%	20.98%	12.80%	12.34%
Sharpe Ratio	0.11	0.21	0.59	0.70
Information Ratio		-0.01	-0.10	-0.08
Correlation		0.94	0.87	0.36
Sortino Ratio	0.15			
Skewness	-0.70			
Kurtosis	2.92			

Comparison to Benchmarks

	MSCI	HFRI	S&P 500
Annualised Alpha (P-Value)	-0.45% (0.76)	-8.21% (~0)	-2.91% (0.42)
Beta (P-Value)	1.02 (~0)	1.53 (~0)	0.67 (~0)
R-Squared	0.89	0.76	0.13

Fama-French 5 Factor Model - S&P 500

- **Market returns (beta):** Sensitivity to overall market performance.
- **SMB (Small Minus Big):** Measures exposure to small-cap versus large-cap stocks.
- The fund's returns are primarily driven by market performance, with **strong correlation to the S&P 500**.
- **Statistically significant small-cap exposure (SMB)**, forms a big part of overall returns
- Limited or no meaningful exposure to value (HML), profitability (RMW), or investment styles (CMA).
- The regression model explains **51.2% of the variability in returns**, highlighting a strategy tied to the market and small-cap stocks.
- Remaining return is about -0.45%, indicating it has **negative alpha**



*P-value > 0.05 – Statistically Significant

Factor	Mkt-RF	SMB	HML	RMW	CMA
Coefficient	0.99	0.20	0.01	-0.11	0.06
*P-value	~0	0.02	0.94	0.29	0.68

Recommendation

Investment Recommendation

Operational and Investment Due Diligence Takeaways

1. Lack of focus on ESG → greenwashing
2. High Turnover Rate: Large transaction costs and tax implications for investors
3. Highly concentrated portfolio exposure and allocation to Asian geography

Quantitative Due Diligence Takeaways

1. Annualized return: 2.63% compared to 10.6% for the S&P 500
2. Standard Deviation of 22.42% compared to 12.80% for the HFRI EM Index
3. Sharpe Ratio of 0.11 compared to 0.59 for HFRI EM Index and 0.70 for the S&P 500

Recommendation

- Do not invest in the BlackRock MADCX Emerging Markets Fund