

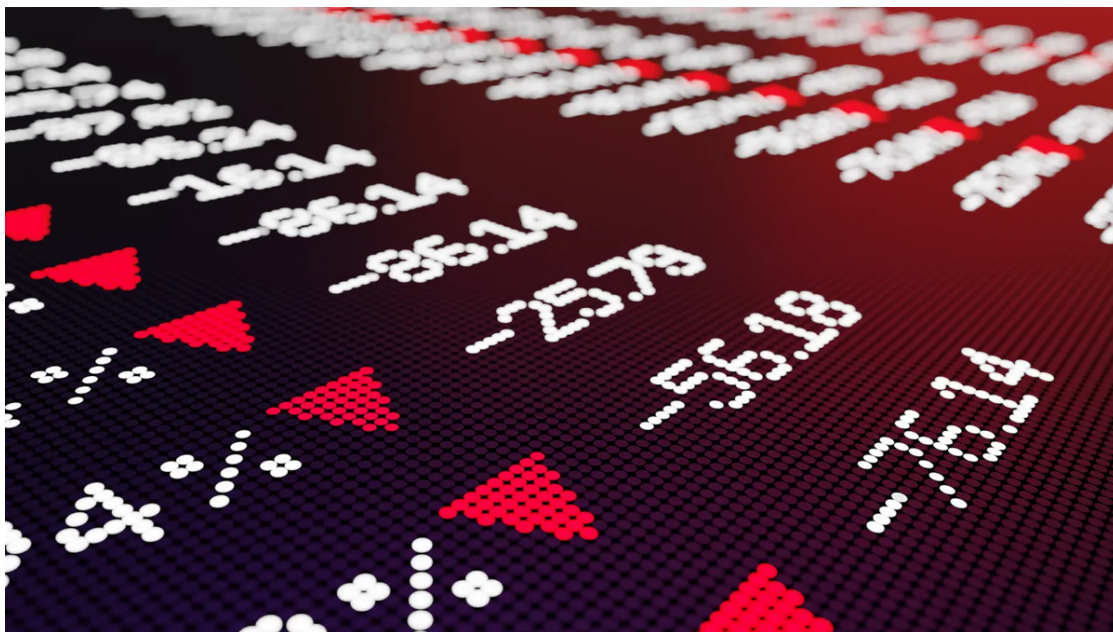
# BST And BSTZ: Growth Remains Under Pressure

Feb. 02, 2022 2:12 PM ET | **BlackRock Science and Technology Trust (BST), BSTZ | BIGZ** | 33 Comments | 35 Likes

## Summary

- BST and BSTZ were two popular tech fund darlings, with recent losses investors are rightfully concerned.
- The two funds share many similarities, but we can also see the differences once you dig a bit deeper.
- Both funds provide attractive distribution yields that I believe will be maintained for now but are on watch.
- This idea was discussed in more depth with members of my private investing community, CEF/ETF Income Laboratory.

[Learn More »](#)



MicroPixieStock/iStock via Getty Images

*Written by Nick Ackerman, co-produced by Stanford Chemist*

We all know that the market tends to overcorrect when making moves. That is both in an upward and downward trajectory. Lately, tech/growth mostly in the more "innovation" space, has been under massive pressure due to interest rate increases. The fact that they were overvalued quite considerably (that's the upward overshoot) didn't help. That being said, these are two funds that have taken intense beatings lately.

I believe we are getting to the point where things are getting interesting with BlackRock Science and Technology Trust ([BST](#)) and BlackRock Science and Technology Trust II ([BSTZ](#)). There is [even soon to be a third](#); Science and Technology Trust III, at least, it is in the works.

These funds have been under significant pressure recently due to rising rates. The term dumpster fire seems to come to mind as of late.



Dumpster Fire (cloudytronic/iStock via Getty Images)

## Definition of *dumpster fire*

US, informal

: an utterly calamitous or mismanaged situation or occurrence

: **DISASTER**

This is my attempt to update these two funds and help explain what is going on. I also believe we are starting to get to some interest levels as these sell-offs, at some point, will end.

## The Basics

Here are the basics for each of the funds. We will also discuss some of their nuances, as they are pretty similar.

BST has an **investment objective** of "providing income and total return through a combination of current income, current gains and long-term capital appreciation."

To achieve this, BST will "invest at least 80% of its total assets in equity securities issued by U.S. and non-U.S. science and technology companies of any market capitalization range, selected for their rapid and sustainable growth potential from the development, advancement and use of science and/or technology, and/or potential to generate current income from advantageous dividend yields. As part of its investment strategy, the Trust intends to employ a strategy of writing (selling) covered call options on a portion of the common stocks in its portfolio."

BST launched in 2014 and is a perpetual fund.

For BSTZ, their [investment objective](#) is "providing total return and income through a combination of current income, current gains and long-term capital appreciation."

To achieve this, BSTZ will "invest at least 80% of its total assets in equity securities issued by U.S. and non-U.S. science and technology companies in any market capitalization range, selected for their rapid and sustainable growth potential from the development, advancement and use of science and/or technology. As part of its investment strategy, the Trust intends to employ a strategy of writing (selling) covered call options on a portion of the common stocks in its portfolio."

BSTZ launched in 2019 and is structured [as a limited-term fund](#). That means they will potentially liquidate after 12 years.

As you can see, at this point, the fund's objectives and investment approach are exactly the same.

## Differences Between These Funds

When you dig deeper into BSTZ, you find out they have a tilt towards investing in private companies - these tend to be smaller companies. At least, these were smaller companies at one time. BST, at one point, was primarily dominated by the large/mega-cap tech names. However, it also began to shift its portfolio to orient more towards BSTZ a bit.

Today, it still holds several of the mega-cap tech names you'd expect in a tech fund. Except it also has a name like Project Kafka Ordinary. Which is also one of the top holdings in BSTZ; it is an "IT Services" industry company.

Top

as of Dec 31, 2021

Name	Weight (%)	Name	Weight (%)
APPLE INC	4.55	TESLA INC	2.10
MICROSOFT CORPORATION	4.31	AMAZON.COM INC	2.08
MARVELL TECHNOLOGY INC	3.33	ASML HOLDING NV	1.85
ALPHABET INC	2.63	LAM RESEARCH CORPORATION	1.83
PROJECT KAFKA ORDINARY	2.13	MASTERCARD INC	1.70

BST Top Ten Holdings (BlackRock)

For comparison, here are BSTZ's top ten holdings. We see Project Kafka show up here once again and several other "Project" holdings.

Top

as of Dec 31, 2021

Name	Weight (%)	Name	Weight (%)
MARVELL TECHNOLOGY INC	4.51	PROJECT SIBELIUS	2.52
PROJECT KAFKA ORDINARY	3.87	SILERGY CORP	2.48
PROJECT DEBUSSY	3.48	KAKAO CORP	2.28
LASERTEC CORP	3.17	PROJECT PICASSO	1.96
TESLA INC	2.93	ZSCALER INC	1.95

BSTZ Top Ten Holdings (BlackRock)



What is interesting is that these holdings are actually just codenames. In the [BSTZ commentary](#), Project Kafka is called Klarna. Though they aren't too obvious, they don't tell you exactly what they are. Klarna was fairly easy to figure out since it was the largest holding at the time for BSTZ and matched as its largest private investment.

Below is the latest listing of private investments BSTZ is sharing. I've highlighted the investment amount.

**Private investments in BSTZ:<sup>3</sup>**

Company	Industry	Investment Quarter	Investment Amount (\$m)	Current Phase	Portfolio Ownership
Flix Mobility	Road & Rail	Q3 2019	\$9.6	Private	Held
Klarna	IT Services	Q3 2019	\$101.2	Private	Held
C3.ai	Software	Q3 2019	\$26.2	Public	Held
Innovium	Semiconductors	Q3 2019	\$17.8	Private	Held
PSI Quantum	Semiconductors	Q3 2019	\$9.2	Private	Held
Gitlab	Software	Q3 2019	\$25.4	Private	Held
Trax	IT Services	Q3 2019	\$26.0	Private	Held
Unqork	Software	Q3 2019	\$24.4	Private	Held
Databricks	Software	Q4 2019	\$83.7	Private	Held
SiteMinder	Software	Q1 2020	\$24.9	Private	Held
CNEX	Semiconductors	Q1 2020	\$10.0	Private	Held
Credo	Electrical Equipment	Q1 2020	\$24.9	Private	Held
Sambanova	Semiconductors	Q1 2020	\$49.5	Private	Held
AvidXchange	Software	Q3 2020	\$8.2	Private	Held
Farmers Business Network	Food Tech	Q3 2020	\$13.9	Private	Held
GrubMarket	Food Tech	Q3 2020	\$8.0	Private	Held
Trumid	IT Services	Q3 2020	\$20.4	Private	Held
Nuvia	Semiconductors	Q3 2020	\$30.8	Acquired	Exited
ResearchGate	Entertainment	Q3 2020	\$6.8	Private	Held
Think & Learn Pvt Ltd	Education Tech	Q3 2020	\$31.1	Private	Held
Cazoo Limited	Specialty Retail	Q4 2020	\$46.1	Public	Held
Snorkel AI	Diversified Financial Services	Q4 2020	\$3.0	Private	Held
DataRobot	Software	Q4 2020	\$13.1	Private	Held
Snyk Limited	Software	Q4 2020	\$32.5	Private	Held
ByteDance	Interactive Media & Services	Q4 2020	\$42.0	Private	Held
Arrival	Automobiles	Q4 2020	\$20.0	Public	Held
Mythic AI, Inc.	Internet	Q1 2021	\$7.0	Private	Held
Automattic	IT Services	Q1 2021	\$34.0	Private	Held
Deep Instinct	IT Services	Q1 2021	\$12.0	Public	Held
Astranis Space Tech	Communications Equipment	Q1 2021	\$17.0	Private	Held
Rapyd Financial Network	Software	Q1 2021	\$14.0	Private	Held

BSTZ Private Investments (BlackRock)

Here are the top ten holdings listed within the same commentary as of September 30th, 2021. We can note that the industry is both "IT services."

## Top 10 holdings

(as % of portfolio assets)

Company name	Industry	Position size
<b>Project Kafka Ordinary Prvt</b>	IT Services	3.6%
<b>Project Debussy Series F Prvt</b>	Software	3.5%
<b>Marvell Technology Inc</b>	Semiconductors & Semiconductor Equipment	2.4%
<b>Project Sibelius Series C Prvt</b>	Semiconductors & Semiconductor Equipment	2.3%
<b>Kakao Corp</b>	Interactive Media & Services	2.3%
<b>Snap Inc Class A</b>	Interactive Media & Services	2.2%
<b>Lasertec Corp</b>	Semiconductors & Semiconductor Equipment	2.2%
<b>Square Inc Class A</b>	IT Services	2.1%
<b>Tesla Inc</b>	Automobiles	2.0%
<b>Lightspeed Commerce Inc</b>	Software	1.9%

Source: BlackRock as of 9/30/2021.

BSTZ Top Ten Holdings (BlackRock)

From there, it seems that Project Debussy could be Databricks. Databricks did have a [Series F funding round in Q4 2019](#), so that part would match. The industry also corresponds and would roughly be the second-largest holding - at least according to its private holdings.

Project Sibelius could be Sambanova. In Q1 2020, that company [had a funding round C](#) and industry matches and the relative size of the position.

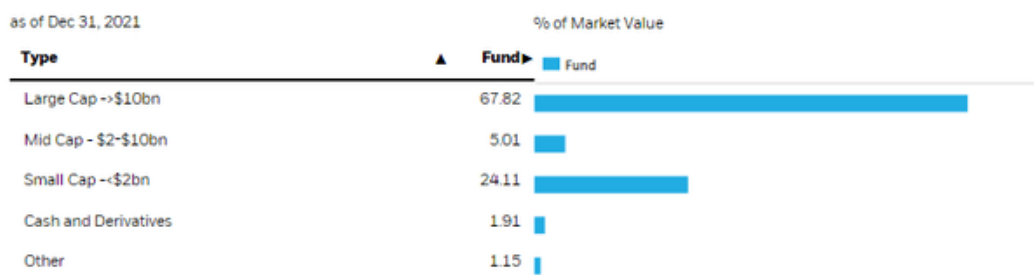
Looking at the latest [Semi-Annual Report](#), we can see that Klarna was one of their best holdings from the previous period. Though as a private holding, we can't just punch in a ticker and see what it might be doing at this time. BlackRock ([BLK](#)) uses a consolidated report and includes both BST and BSTZ, so it is the same report for both and the same commentary for both BST and BSTZ as Klarna provided strong performance for both funds.

Stock selection within the services sub-sector was the largest contributor to the Trust's performance. Among individual stocks, the Trust's position in privately held fintech company Klarna contributed the most to relative returns following a fundraising round that significantly increased its valuation.

All that being said, BST and BSTZ can invest in similar names. However, BSTZ will tend to focus on private and smaller companies. At least, they were smaller at one point. With valuations going up dramatically, the market cap breakdown for BSTZ has pushed it into being classified as mostly large-cap holdings. BST tends to lean towards the larger cap names that are more recognizable but have also been stuffing its portfolio with some private holdings too.

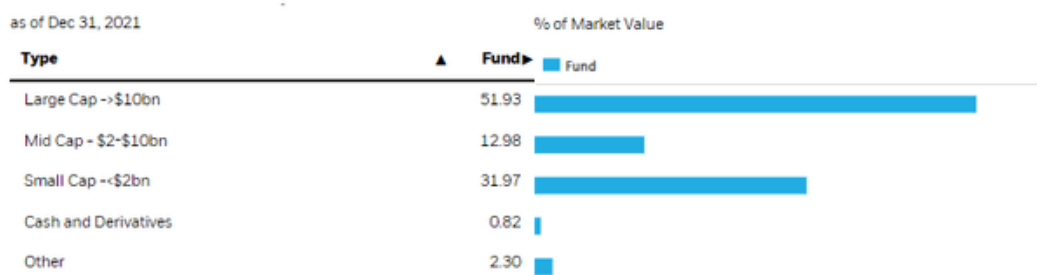
### BST

as of Dec 31, 2021



### BSTZ

as of Dec 31, 2021



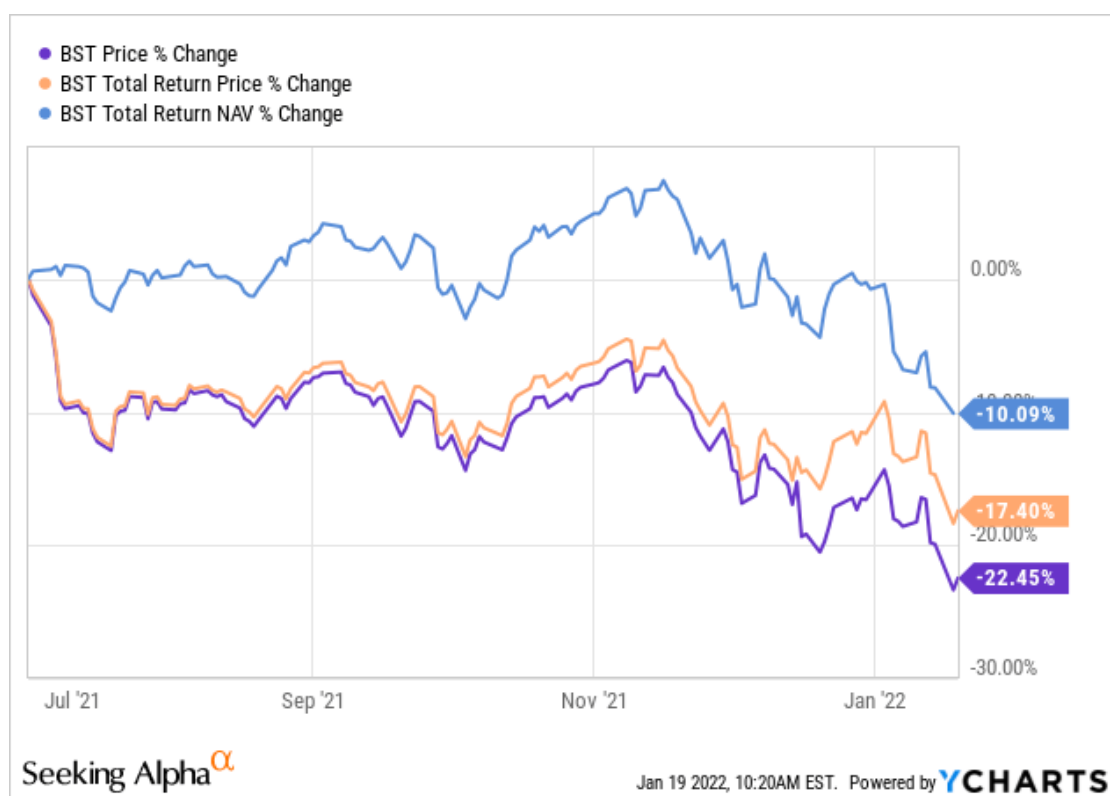
BST/BSTZ Market Cap Weightings (BlackRock)

## So, What's Going On With These Funds?



These are two tech funds that had become quite popular, considering how strong they were performing until the last several months or so. During 2020, these were the darlings, with BSTZ being the top-performing closed-end fund in the entire space.

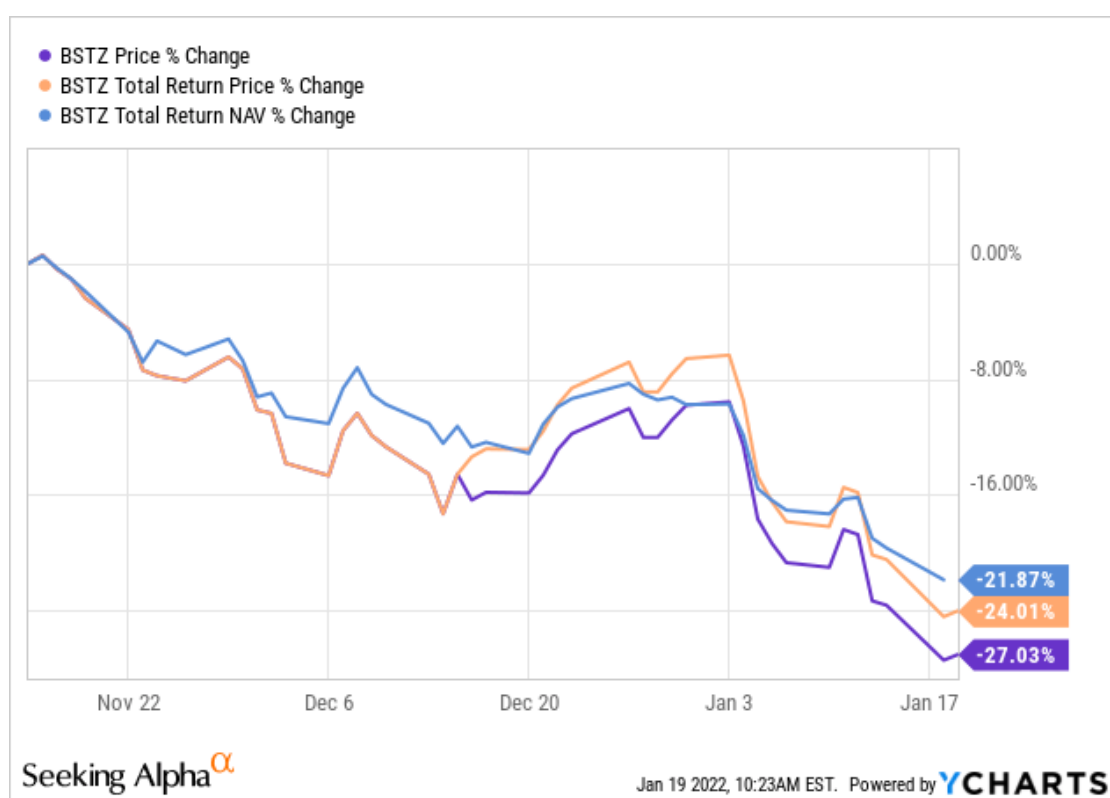
BST seemed to peak out around July of 2021. July marks when the fund was [wrapping up with its rights offering](#). However, total returns were significantly better and reflected the \$1.5584 special. That's in addition to the other ~\$1.45 in the regular monthly distributions for that period.



Ycharts

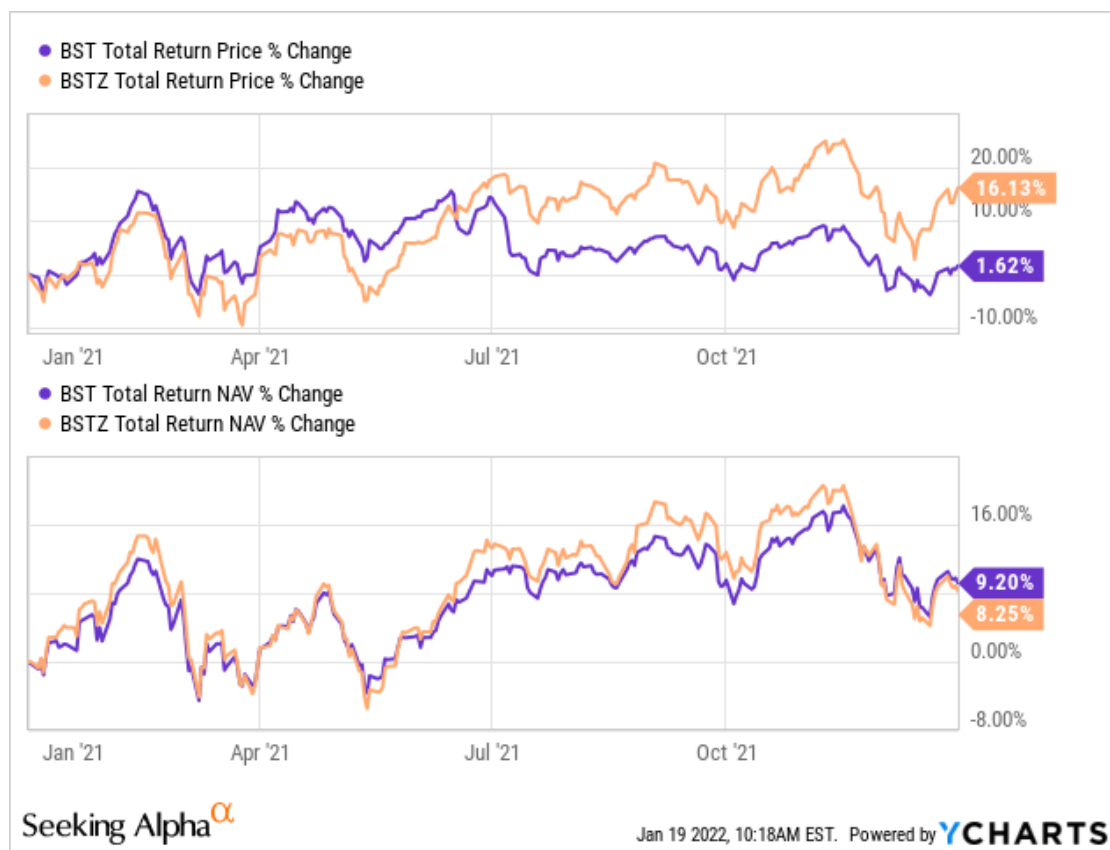
BSTZ hung on longer until around the middle of November, before it began its more rapid descent. Of course, no rights offering for BSTZ helped. Perhaps that's why it seems even more shocking since it was in a much shorter time period where the position had begun to break down. However, it also did seem to fall more than BST too. This makes sense once you think about the holdings.

BSTZ also had a significant special distribution, coming in at \$1.0797. That is also reflected below in the total return figures.



Ycharts

Even 2021 overall wasn't that terrible for these funds. It was just mostly that the losses seemed to come so suddenly. They saw distribution boosts as an aftereffect from the strong 2020. They took a lot of profits off the table, resulting in sizeable special distributions for both of these funds.



Ycharts

That's really what it comes down to as well. Investors sometimes mistake a strong year of performance to generate sizeable year-end specials. These specials are only made to comply with their regulated investment company status. They can double in a year, but no special would need to be paid out if they didn't realize the gains. The opposite is true; BST and BSTZ had okay 2021 performance but generated a lot of realized gains, which resulted in the specials being paid. It also saw them increase their regular distributions several times.

All of this is coming on the back of higher rates. The Fed is set to increase rates three or four times in 2022. We also have seen the 10-year Treasury tick higher, so rates are moving. As these are considered "long duration" assets, they are taking a hit. Since they ran up so much on growth potential in the future, a higher emphasis is being put on securities that can produce earnings in the here and now.



Ycharts

Anything that relies on future cash flows as a strong investment case is being discarded. This is simply because higher rates can give investors [a better opportunity to invest in something safer](#) for a reasonable return. Of course, the 10-Year Treasury doesn't have a fair return, not at these levels anyway. After inflation, you are looking at losing purchasing power.

Growth was the darling and favored sector for several years. Now, it is time for value investments to shine while interest rate talks are taking the headlines. That's why I continue to believe that investing in a more overall diversified portfolio is a viable option.

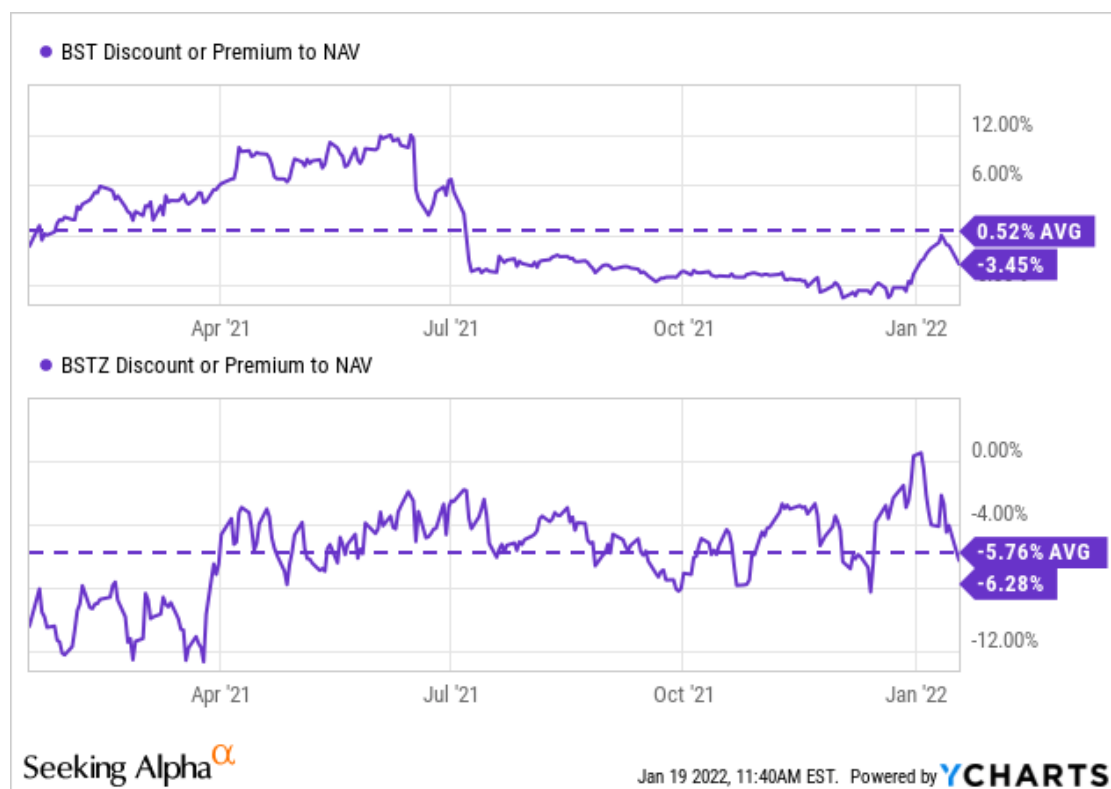
## What To Do Now

In my opinion, now that these investments are off 20 to 30% from their all-time highs, it could be an interesting time to start buying. Some of the underlying holdings are down even more. Eventually, the bleeding will stop. This seems to be getting close to overcorrection territory, in my opinion.

BST and BSTZ could even have a kicker that their options strategy can kick in when the rapid downward trajectory slows. Writing calls works best in a flat market. We haven't seen this in years in the tech space as rapidly moving higher was all the sector seemed to know.

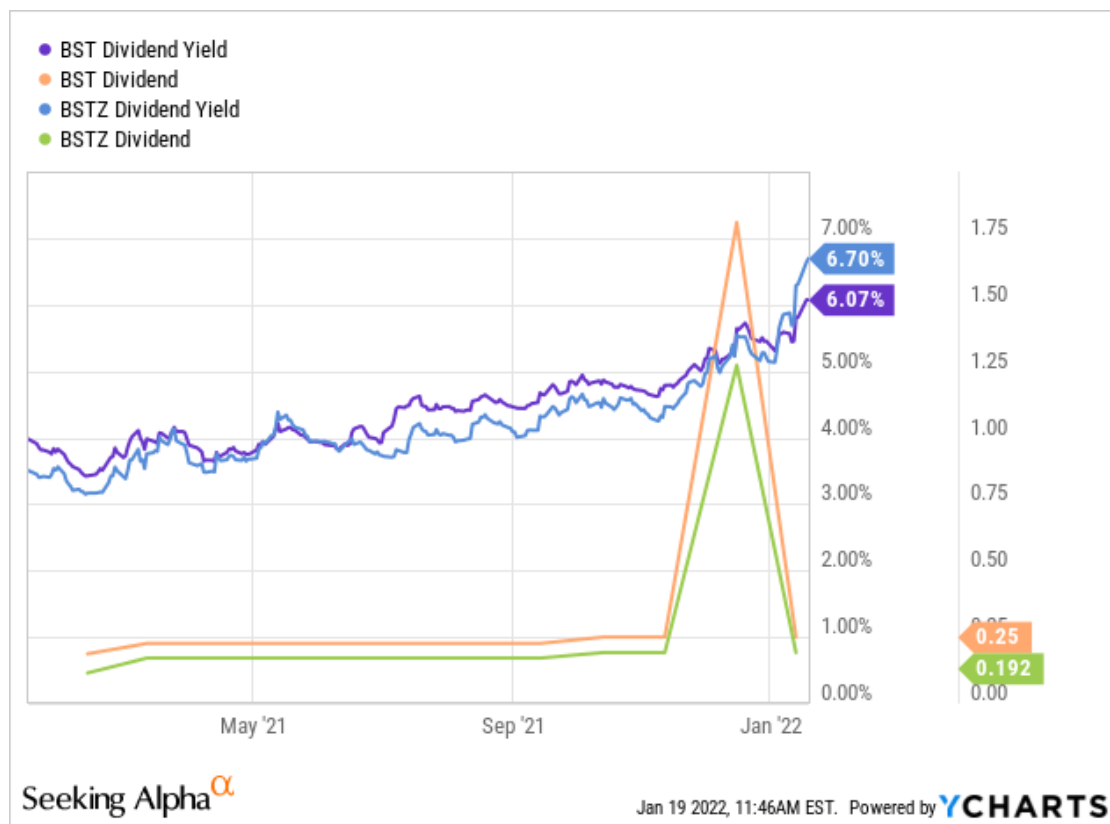
I don't claim to know when that turnaround or when the sell-off in these names might happen. As long as higher rates are making headlines, tech and particularly BSTZ/BST type of funds will be under pressure.

The funds themselves are at some attractive discounts that have expanded a bit since the whole sell-off in the space. This fairly standard event seems to occur in CEFs when a sector becomes out of favor. However, they are holding on much better than we would typically see.



Ycharts

At the same time, investors are still receiving quite attractive distributions from these funds. These have become even higher as of late, of course, due to the sell-off.



Ycharts

However, since these funds work off of capital gains to fund their distributions, we could see cuts if they remain depressed for too long. I don't believe we are at that point yet with BST or BSTZ. For comparison, [something like BlackRock Innovation & Growth Trust \(BIGZ\)](#) is at risk for cuts. That's another somewhat similar fund with a private theme as BSTZ. Once the rates start brushing near the 9% to 10% mark, I believe that is when we could begin seeing cuts.

In the end, I still believe that BSTZ is a relatively risky holding. BST, on the other hand, is the more stable of the two funds. Giving investors an option of what approach they might feel more comfortable with.



## Profitable CEF and ETF income and arbitrage ideas



At the [CEF/ETF Income Laboratory](#), we manage ~8%-yielding closed-end fund (CEF) and exchange-traded fund (ETF) portfolios to make income investing easy for you. Check out what our [members have to say](#) about our service.

**To see all that our exclusive membership has to offer, [sign up](#) for a free trial by clicking on the button below!**

**Start your 2-week free trial today!**

---

This article was written by

Author of [CEF/ETF Income Laboratory](#)  
**CEF/ETF income and arbitrage strategies, 8%+ portfolio yields**

Nick Ackerman is an avid student of the markets and has been invest

[Show More](#)

Follow 

---

**Disclosure:** I/we have a beneficial long position in the shares of BSTZ, BST, BIGZ, BLK either through stock ownership, options, or other derivatives. I wrote this article myself, and it expresses my own opinions.

I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

**Additional disclosure:** This article was originally published to members of the CEF/ETF Income Laboratory on January 19th, 2022.

35 Likes

33 Comments

Comments (33)

