

Fund Commentary

BLACKROCK GLOBAL FUNDS (BGF)

BGF Euro-Markets Fund Review of August 2011



Fund managers

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Market Overview

European equities plummeted in August, with many European indices recording the worst monthly performance since October 2008. All major sectors declined during the month, with the financials, materials and consumer discretionary sectors performing worst.

The market sell-off was triggered by a combination of factors, including the US sovereign debt downgrade by S&P and further European sovereign funding concerns. The market also began to adjust to lower growth expectations after the second quarter results season saw significant downgrades across a number of sectors, with GDP growth forecasts revised downwards for the second half of 2011 and 2012.

Markets also experienced higher levels of volatility in the month with the VIX hitting an intra-month high of 48 after beginning the month at around 25.

Performance Attribution

- ▶ The BGF EuroMarkets Fund returned -13.5% for August, underperforming the MSCI EMU Index which returned -13.0%*
- ▶ Negative stock selection over the period was somewhat mitigated by sector allocation.
- ▶ A number of cyclical growth names fell out of favour, including auto components producer Continental and car manufacturer Daimler. Elsewhere, an underweight in consumer staples detracted as well as not owning Unilever.
- ▶ From a stock selection perspective, we were disadvantaged by overweight positions in Italian bank Intesa Sanpaolo and Belgian bank KBC, which were affected by general sector weakness stemming from continued sovereign debt issues.
- ▶ That said our underweight position in financials was rewarding, along with an underweight stance in the materials sector, which lagged the market as global growth expectations deteriorated.
- ▶ The industrials sector was the largest positive contributor due to accurate stock selection in high quality capital goods companies including electrical engineer Legrand and elevator maker Kone.
- ▶ Elsewhere, budget airline Ryanair outperformed the market on expectations of a lower oil price and consumer down-trading on their travel expenditure during a slowdown.

Transactions & Positioning

- ▶ Key changes during the month included the reduction of consumer discretionary exposure through sale of tyre manufacturer Nokian Renkaat and luxury goods firm LVMH.
- ▶ Telecoms holdings also decreased following the sale of Deutsche Telekom. The proceeds were used to increase our allocation towards the healthcare sector with the purchase of hospital operator Rhoen-Klinikum and pharmaceuticals company Sanofi.
- ▶ Other stock specific purchases included Finnish insurance firm Sampo and fragrance and flavour manufacturer Symrise.
- ▶ The Fund is currently overweight in industrials, consumer discretionary and healthcare and underweight in utilities, financials and telecoms.

Outlook

- ▶ The global economic slowdown and worsening political crisis in the Eurozone and USA has been more severe than anticipated. We have revised down our expectations to account for this more challenging environment. That said, corporate balance sheets remain very strong; we continue to find quality growth and defensive companies on very cheap valuations.
- ▶ Over the long term we continue to believe that the corporate earnings and cash generation of companies are the key drivers of equity returns. European equities have sold off significantly in recent weeks, and whilst we are conscious of the risks currently pervading the region, we are also aware of the buying opportunity that this represents for investors prepared to ride out short term volatility.

*Reported Fund performance over the month was positively affected by the timing differential between the Fund and its benchmark.

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* Data as at 30 June 2011.

† This tally of awards is correct to 31 May 2011 and does not include iShares ETF products.

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