

Fund Commentary

BLACKROCK GLOBAL FUNDS (BGF)

BGF China Fund



Fund Manager
Jing Ning

Market Summary

- ▶ Chinese equities lost ground in February as investors remain wary of further measures to rein in inflation. Strong export growth, a further increase in interest rates and greater reserve ratio requirements for banks failed to revive the market's confidence, even when it was revealed that January's consumer price index rose less than expected.
- ▶ Fears that government efforts to reduce inflation may impact growth drove industrials lower, whilst the consumer discretionary and consumer staples sector continued to suffer as investors pulled out of the market, given their popularity in 2010. Healthcare and technology held up relatively well, posting positive gains.

Performance Attribution/Analysis

- ▶ The BGF China Fund underperformed the index in February, dropping -2.51% against a benchmark fall of -1.80%.
- ▶ Underperformance was driven by stock selection in the technology and consumer staples sectors. Sector asset allocation was also a slight negative, with the positive effects of our overweight in healthcare and underweight in consumer staples offset by our overweight in technology and consumer discretionaries.
- ▶ Want Want China suffered as the market began to price in the inflationary effects of Queensland's recent natural disasters on the sugar price, which will have an impact on the company's snack food business. We maintain our long-term conviction in this stock, despite this short-term issue. Uni-President China, another food and beverage producer, has been falling over several months as investors sell out of the previously well-owned sector. We have been using this weakness to establish a position over the last month and although this detracted in February, we believe that the market is too pessimistic in its view of inflation and that short-term headwinds are already priced in.
- ▶ Selection in technology weighed on performance as Tencent continued to outperform. We maintain an underweight, convinced that the company is over-valued and have built positions in other internet companies such as Shanda Games and Kingsoft, which we believe offer a better risk/reward trade-off. Whilst Shanda did well in February, it was eclipsed by Tencent.
- ▶ Several of our best performing stocks in recent times, such as Ports Design, Huabao International and Zhuzhou CSR Times Electric gave back some gains in February. However all three

remain high conviction positions given what we see as long-term structural advantages within the marketplace.

- ▶ TBEA, an A-share position, remained strong in February as it was awarded a contract to supply the power lines and transformers for a new project in Uzbekistan. There is plenty of potential for the company to grow its market share within China as the government expands power infrastructure into the Western provinces and this contract expands a decent overseas order book from Central Asia and Africa.

Portfolio Changes

- ▶ Cyclical sectors have done well in recent months as the US economy has seen some incremental improvement and we continued to bank profits in these areas, liquidating our remaining holding in China Cosco Pacific. We also reduced our technology exposure, selling out of telecom equipment producer ZTE and Siliconware Precision Industries, a Taiwanese semiconductor maker.
- ▶ We increased our bank exposure through additions to ICBC and China Minsheng Banking. The sector has underperformed as it has borne the brunt of the government's efforts to cool inflation through administrative measures. However we believe that as inflation recedes these pressures should diminish and recent weakness has brought valuations back to attractive levels. Fundamentally, Chinese banks are expected to increase net interest margins and deliver solid earnings growth in 2011 and we have a high-conviction overweight in the sector.

Strategy/Outlook

- ▶ The authorities did not release much of January's economic data given the distortion caused by Chinese New Year, in line with standard practise. However a 37.7% and 51.0% annual increase in exports and imports respectively indicates that the economy continues to grow at a rapid pace. Inflation was lower than expected, although this was due in some part to a re-weighting of the CPI basket.
- ▶ Our near term caution appears justified in the wake of February's weakness. Volatility may continue until the market sees some evidence of receding inflation, however we have a positive outlook for Chinese equities from this level. We anticipate further softening in inflation will obviate the need for immediate tightening, removing the primary headwind to Chinese equities. At the same time, Chinese companies are well placed to deliver reasonable earnings growth in 2011.

- ▶ We continue to identify and invest in oversold areas, which we believe have strong fundamentals and the ability to outperform when sentiment turns more favourable. Examples include banks, cement makers and, to a lesser extent, real estate. We are also using the current weakness to add to our longer-term structural positions in areas such as sophisticated industries, healthcare and consumer discretionary.
- ▶ Our largest exposure is to consumer discretionary, where we continue to concentrate on off-index ideas which tend to be less susceptible to foreign flows. We are also overweight in materials through our cement exposure and to healthcare. We remain underweight in energy, with a neutral exposure to oil. We are also underweight in technology, although we have been closing this up as and when we find attractive opportunities.

About BlackRock

BlackRock is one of the world's pre-eminent asset management firms and a premier provider of global investment management, risk management and advisory services to institutional, intermediary and individual investors around the world. BlackRock offers a range of solutions – from rigorous fundamental and quantitative active management approaches aimed at maximising outperformance to highly efficient indexing strategies designed to gain broad exposure to the world's capital markets. Our clients can access our investment solutions through a variety of product structures, including individual and institutional separate accounts, mutual funds and other pooled investment vehicles, and the industry-leading iShares® ETFs. This offering has been recognised in 2010 with over 180 first-placed industry awards received globally†.

BlackRock is a truly global firm that combines the benefits of worldwide reach with local service and relationships. We manage assets for clients in North and South America, Europe, Asia, Australia and the Middle East. The firm employs more than 8,500 professionals and maintains offices in 24 countries around the world.

The foundation of BlackRock's business is our belief that our clients' needs are of paramount importance. Our commitment to investment excellence is anchored in a shared culture that always places a client's interests first, from individual investors to the world's largest institutions. We act always as a fiduciary for our clients, never trading as a principal on our own behalf.

As of 31 December 2010, BlackRock's assets under management total US\$3.56 trillion (£2.30 trillion)* across equity, fixed income, cash management, alternative investments, multi-asset and advisory strategies. Through BlackRock Solutions®, we offer risk management, strategic advisory and enterprise investment system services to a broad base of clients with portfolios totalling over US\$9.5 trillion.*

* Data as at 31 December 2010.

† This tally of awards is correct to 31 December 2010 and does not include iShares ETF products.

This material is for distribution to Professional Clients and should not be relied upon by any other persons. The information in this commentary may only be distributed to "professional investors" (as defined in the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong)). Any research in this document has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy. Past performance is not a guide to future performance. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. BlackRock Global Funds (BGF) is a Luxembourg-based SICAV which is available for sale in certain jurisdictions only. BGF is an open-ended investment company established in Luxembourg. It is recognised under Section 264 of the Financial Services and Markets Act 2000. BGF is not available for sale in the U.S. or to U.S. persons. Product information concerning BGF should not be published in the U.S. BlackRock Investment Management (UK) Limited is the UK distributor of BGF. Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available. A limited range of BGF sub-funds have a distributor status A sterling share class that seeks to comply with UK Distributor Status requirements. Please contact the Manager for further information. The above warnings are explained in greater detail in the Special Risk Considerations in the current Simplified Prospectus and you should read them before investing. The Fund invests in certain smaller and emerging markets. The prospects for economic growth in a number of these markets are considerable and equity returns have the potential to exceed those in mature markets as growth is achieved. However, there are risks to the Fund from political, economic and market factors in smaller and emerging markets which are of particular significance. Issued by BlackRock Investment Management (UK) Limited (authorised and regulated by the Financial Services Authority). Registered office: 33 King William Street, London, EC4R 9AS. Registered in England No. 2020394. Tel: 020 7743 3000. For your protection, telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited. Issued in Switzerland by the representative office, BlackRock Investment Management (UK) Limited (London), Zurich Branch, Dreikönigstrasse 31a, 8002 Zurich, from where the Company's Prospectus, Simplified Prospectus, Articles of Association, Annual Report and Interim Report are available free of charge. Paying Agent in Switzerland is HSBC Private Bank (Suisse) S.A., Paradeplatz 5, CH-8001 Zurich, Switzerland. Issued in Hong Kong by BlackRock (Hong Kong) Limited. In Singapore, this information is issued by BlackRock Investment Management (Singapore) Limited. The offer which is the subject of this information memorandum is not allowed to be made to the retail public. This information memorandum is not a prospectus as defined in the Securities and Futures Act. Accordingly statutory liability under that Act in relation to the content of prospectuses would not apply. You should consider carefully whether the investment is suitable for you.

For more information: Tel: 08457 405 405 Email: broker.services@blackrock.com Website: blackrock.co.uk

BLACKROCK